FrieslandCampina
nourishing by nature

Annual Report 2014

Royal FrieslandCampina N.V.

Explanatory note

In this Annual Report we are presenting the financial results and key developments of Royal FrieslandCampina N.V. (hereafter FrieslandCampina) during 2014.

The financial statements have been prepared as at 31 December 2014. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), to the extent they have been endorsed by the European Union, and with Part 9 Book 2 of the Dutch Civil Code to the extent this is applicable.

The milk price for 2014 received by members of Zuivelcoöperatie FrieslandCampina U.A. for the milk they supplied was determined on the basis of FrieslandCampina's method for determining milk prices 2014-2016. All amounts in this report are in euro, unless stated otherwise.

This Annual Report includes statements about future expectations. These statements are based on the current expectations, estimates and projections of FrieslandCampina's management and the information currently available. The expectations are uncertain and contain elements of risk that are difficult to quantify. For this reason FrieslandCampina gives no assurance that the expectations will be realised.

This annual report is available in Dutch, English and German language versions. In the case of conflict between the versions the Dutch text is binding.

The Annual Report of Royal FrieslandCampina N.V. has also been published on the website www.frieslandcampina.com. The annual report is available on request from the Corporate Communication department of FrieslandCampina (e-mail: corporate.communication@frieslandcampina.com).

The terms used in this Annual Report include:
Royal FrieslandCampina N.V. (the 'Company' or 'FrieslandCampina')
Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative')
Supervisory Board of the Company (the 'Supervisory Board')
Executive Board of the Company (the 'Executive Board')

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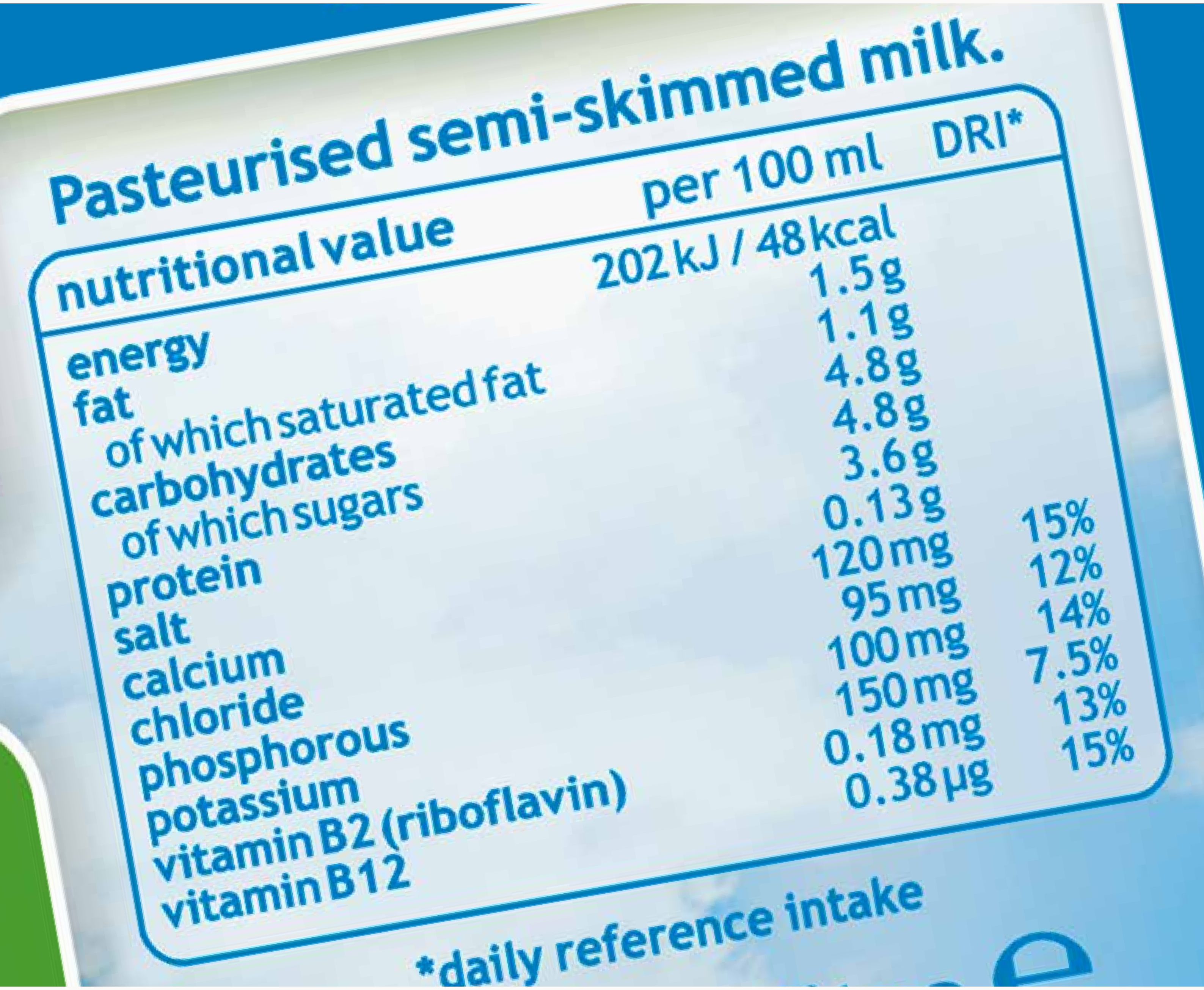

Pasteurised semi-skimmed milk.
nutritional value
per 100 ml
DRI*
energy
fat
of which saturated fat
carbohydrates
of which sugars
protein
salt
calcium
chloride
phosphorous
potassium
vitamin B2 (riboflavin)
vitamin B12
202 kJ / 48 kcal
1.5 g
1.1 g
4.8 g
4.8 g
3.6 g
0.13 g
120 mg
95 mg
100 mg
150 mg
0.18 mg
0.38 µg
15%
12%
14%
7.5%
13%
15%
*daily reference intake

Contents

Foreword from the CEO

Dear reader,

In 2014 Royal FrieslandCampina's results were more influenced by external conditions than in other years. The year could accurately be described as dynamic.

Geopolitical tensions and currency translation effects
Geopolitical tensions, which resulted in Russia's boycott of agricultural products, including products from the EU, affected the dairy sector. In Asian and African countries, which have shown continuous growth in recent years, economic development stagnated. Currency translation effects had a negative influence on the result. The expensive euro, combined with the high dairy prices in the first half of the year, made the products even more expensive in local currencies and put pressure on the profit in euros. As a result FrieslandCampina was confronted with pressure on volumes and market shares, especially of dairy-based beverages, cheese and ingredients, particularly in the first half of 2014. By passing on the price increases throughout the year in both Asia and Europe, the margins recovered. Growth was achieved with infant nutrition, especially in Hong Kong and China. Reduced demand from China for dairy raw materials, the outbreak of the Ebola virus disease in West Africa, the fire at FrieslandCampina in Gerkesklooster and government intervention in respect of consumer prices in Vietnam, Thailand and countries in the Middle East also affected FrieslandCampina.

A satisfactory result
Thanks to one-time income and stringent cost control plus the effect of the goodwill impairment in 2013, the reported profit improved in 2014. However, due to the external factors mentioned above, the underlying operating profit was lower than in 2013. As far as the member dairy farmers were concerned the milk price of 42.70 euro per 100 kilos of milk was only slightly less than the record high in 2013. In view of the market conditions FrieslandCampina achieved a satisfactory result. The total payment to the member dairy farmers for the milk supplied amounted to 4.1 billion euro - an all-time high payment. This, together with investments of over 650 million euro in capacity expansion and quality improvement in 2014, most of which took place in the Netherlands, shows FrieslandCampina's importance for the Dutch economy.

Further steps towards sustainability
FrieslandCampina wants to achieve climate-neutral growth and accepts its responsibility for this. The member dairy farmers' endorsement of the revisions in the *Foqus planet* quality and sustainability programme was an important milestone in 2014. The basis stipulations have been sharpened, the member dairy farmers now receive a performance-dependent sustainability premium and the meadow milk premium has been raised to 1.00 euro gross per 100 kilos of milk. There were also many sustainability initiatives within the Company. One of the targets is that in 2015 all the energy used by FrieslandCampina's facilities will be green electricity, 50 percent of which will be generated on member dairy farmers' farms. New initiatives in the field of the sustainable deployment of employees were also taken with the start of a vitality programme based on personal guidance and advice.

***route2020* strategy update**
Since 2009 FrieslandCampina has invested around 2.5 billion euro mainly in capacity expansion and quality improvement. This has taken place bearing in mind the anticipated increasing quantity of milk from the member dairy farmers both in the period leading up to the ending of the milk quota in April 2015 and after. Although volume growth of the dairy-based beverages and branded cheese categories lagged behind in 2014 due to the high sales prices and the Russian boycott, FrieslandCampina is ahead of schedule with the achievement of the *route2020* strategy. The Company has also streamlined its organisation further in order to be able to achieve significant cost savings in the coming years. In 2015 an evaluation of the strategy is foreseen.

Prospects with nutritious food
Although the disappearance of the EU milk quota will quite possibly lead to even more volatility on the dairy market, the prospects for FrieslandCampina and the member dairy farmers remain positive. The Company is well positioned and prepared. The demand for nutrition is increasing due to the growing global population and the increasing awareness that nutritious food is extremely important for people's health and wellness. Milk, by nature, contains many important nutrients. Making these nutrients even more accessible remains FrieslandCampina's guiding principle and will contribute towards the valorisation of the member dairy farmers' milk.

Departure
On 18 February 2015 it was announced that as of 1 June 2015 I will be resigning from my position as Chief Executive Officer of Royal FrieslandCampina N.V. I feel part of and connected with the creation of FrieslandCampina as a multinational dairy concern firmly rooted in the Netherlands. I wish my successor from the Executive Board, Roelof Joosten, every success in the marvellous position that I have been allowed to fill during the past seven years. I thank the Supervisory Board, the Board of the Cooperative, the member dairy farmers and all my colleagues within FrieslandCampina for all the cooperation and support I have enjoyed throughout my years at FrieslandCampina.

Cees 't Hart
CEO Royal FrieslandCampina N.V.

Amersfoort, the Netherlands, 27 February 2015

Royal FrieslandCampina at a glance

11.3 billion euro revenue

22,168 employees

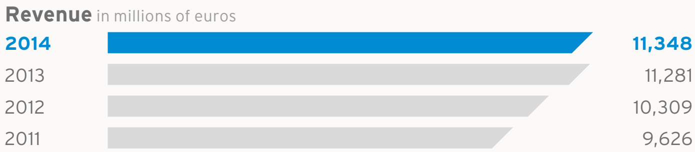
Facilities in **32** countries

Export to over **100** countries

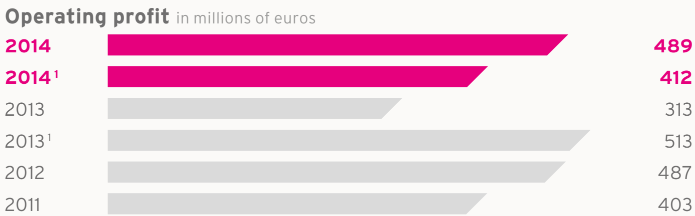
19,054 member dairy farmers own the Company

Millions of consumers every day

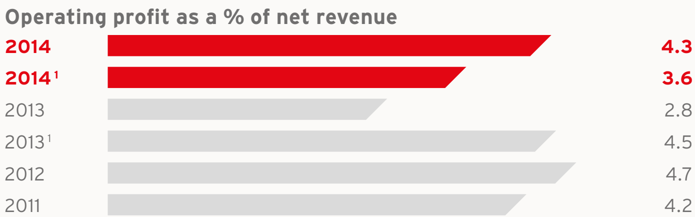
0.6%
increase in revenue



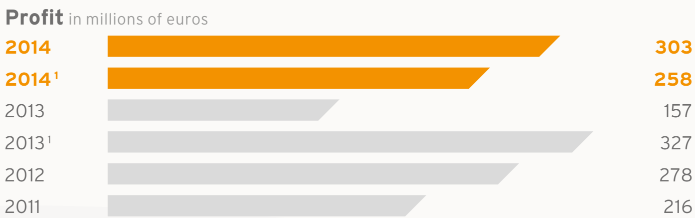
489
million euro operating profit



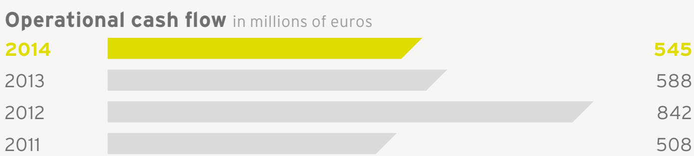
4.3% operating profit
as a % of net revenue



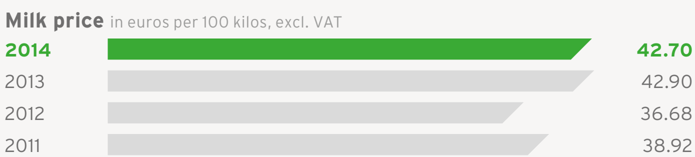
303
million euro profit



545 million euro cash flow
from operating activities



Milk price for member dairy farmers
42.70 euro per 100 kilos of milk



[1] Corrected for one-time items

Global challenges

By 2050 the world's population is expected to have grown to over nine billion people of whom 70 percent will live in large cities. Feeding this growing population will be an enormous challenge and has implications for people, animals and the environment. How can enough affordable, nutritious and energy-rich food be produced? Fertile land and clean drinking water are already scarce in some regions and the pressure on the environment will only increase. And even if the availability of land and water was not a problem, will there still be enough farmers to produce our daily food? And will they be able to earn enough to sustain themselves and their families? FrieslandCampina sees three global challenges towards which it can, thanks to its activities, make a contribution.

The growing world population

- Feeding the world's growing population
- The availability of sufficient nutritious and energy-rich food and the affordability of food for a wide range of population groups
- Maintaining food safety and consumers' trust

Enough farmers to produce food

- Ensuring young people are interested in becoming farmers by offering good prospects for the future and by so doing responding to the fast-rising average age of farmers
- Farmers must be able to earn enough to allow responsible business operations and the creation of a positive future for themselves and their children
- Worldwide 750-900 million people depend on the dairy farming sector for their income

A scarcity of natural resources

- Responding to the increasing scarcity of land, water and other natural raw materials by producing more efficiently
- Reducing CO_2 emissions and making more use of renewable energy
- Contributing towards the retention of biodiversity

route2020 strategy: sustainable growth and value creation

Ambition

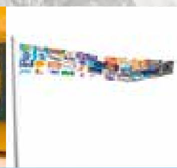
To create the most successful, professional and attractive dairy company for member dairy farmers, employees, customers and consumers and for society by providing people around the world with essential nutrients from dairy products during every phase of their lives

Growth categories


Dairy-based beverages


Infant nutrition (B2B, B2C)


Branded cheese


Strongholds & geographic expansion


Foodservice in Europe

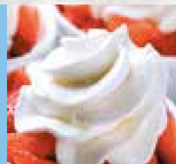

Basic products

Respond to needs


Growth & development


Daily nutrition


Health & wellness

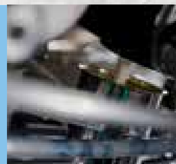

Functionality

Capabilities


Talent management


Milk valorisation


Innovation


Business model & cost focus

Foundation


Goodness of dairy


Chain advantages


Sustainable dairy farming & business operations


The way we work & safety

FrieslandCampina's ambition is to create the most successful, professional and attractive dairy company for member dairy farmers, employees and customers as well as for consumers and society. The world market's growing demand for healthy, sustainably produced food offers FrieslandCampina opportunities.

To fulfil this ambition, FrieslandCampina formulated the *route2020* strategy for the period 2010-2020. The key words are *sustainable growth and value creation*: the sustainable growth of the Company and the maximising of the value of all the milk produced by the Cooperative's member dairy farmers.

FrieslandCampina strives to achieve the following goals:

- an increased share of added-value and branded products in the total sales volume;
- further operating profit growth;
- a higher performance premium and a higher distribution of member bonds for the member dairy farmers;
- fewer than 0.05 accidents resulting in sick leave per 200,000 hours worked;
- climate-neutral growth throughout the entire chain from cow to consumer.

FrieslandCampina invests more than the average in the three growth categories: dairy-based beverages, infant nutrition and branded cheese. These categories are supported through research & development in the field of growth & development (of children), daily nutrition, health & wellness and functionality.

Because the Royal FrieslandCampina N.V. company is directly linked with the FrieslandCampina U.A. Dairy Cooperative, FrieslandCampina controls the entire production chain from raw milk to distribution. As a result FrieslandCampina can vouch for the quality of its products. In the collaboration with member dairy farmers the accent is on quality, food safety and operating sustainably.

FrieslandCampina strives to achieve the foreseen growth of its activities in a climate-neutral manner throughout the entire chain from cow to consumer. The Company wants to achieve this by working with the member dairy farmers and chain partners on improving energy efficiency, reducing greenhouse gas emissions and stimulating the production of sustainable energy on dairy farms.

In 2015 the *route2020* strategy will be updated on the basis of an analysis of opportunities and threats in an increasingly dynamic environment.

Information about the achievement of the strategy can be found on pages 28-32.

nourishing by nature

Providing people around the world with the right nutrition is the challenge. Milk, by nature, contains essential nutrients such as proteins, vitamins B2 and B12, and minerals such as calcium. By offering trustworthy and tasty dairy products, FrieslandCampina is contributing towards safeguarding food and nutrient security. FrieslandCampina also strives to limit the pressure on natural resources and the environment.

Every day millions of consumers around the world enjoy FrieslandCampina's innovative and tasty dairy products. FrieslandCampina brings the best of two worlds together by combining the professionalism and entrepreneurship of its member dairy farmers with the (international) expertise, customer-orientation and experience of the Company and its employees.

FrieslandCampina is committed to high standards in the field of food safety, the personal safety of its employees, quality, sustainability and transparency throughout the entire production chain: 'from grass to glass'. This lays the foundations for customer and consumer trust in the products and safeguards the continuity that is the hallmark of the Cooperative.

FrieslandCampina believes in shared values: the simultaneous achievement of a good income for the member dairy farmers, added-value for customers and consumers, and personal growth and career perspectives for the employees. At the same time FrieslandCampina is an added-value for the communities in which it operates. This is how opportunities are created and perspectives are offered to all stakeholders.

FrieslandCampina brands


Friesche Vlag
Mona
Botergoud
Gezouten
Nutroma
CoolBest
Debic
.com
Completa
Vifit
Valess
Fristi
Pearl
NOYNOY
NEW
Fruttis
BLACK&WHITE
Milli
DFE pharma
Hollandia

Worldwide

North and South America

United States of America
Brazil

361 revenue*

163 employees

6 locations

Europe

Netherlands
Germany
Belgium
Greece
Hungary
Romania
Russia
France
Spain
Italy
Austria
United Kingdom

6,768 revenue*

13,371 employees

71 locations

* In millions of euros

Asia and Oceania

Indonesia
Malaysia
Singapore
Thailand
Myanmar
Vietnam
Philippines
China
Hong Kong
India
Japan
New Zealand

2,978
revenue*

7,574
employees

32
locations

Africa and the Middle East

Nigeria
Ghana
Ivory Coast
United Arab Emirates
Saudi Arabia
Egypt

1,241
revenue*

1,060
employees

6
locations

Major developments in 2014

A satisfactory result in a difficult year

- Revenue stable at 11.3 billion euro excluding currency translation effects an increase of 2.2 percent
- Further growth achieved with infant nutrition in China and Hong Kong
- Pressure on market shares and volumes of dairy-based beverages and branded cheese
- Operating profit up by 56.2 percent to 489 million euro. Corrected for one-time items and currency translation effects, operating profit down by 10.7 percent
- The negative effect of the Russian boycott of dairy products on operating profit estimated at 80 million euro
- Profit up by 93 percent to 303 million euro. Excluding the one-time items and currency translation effects profit down by 13.1 percent
- Cash flow from operating activities down to 545 million euro (2013: 588 million euro)

Value creation for member dairy farmers

- Guaranteed price down by 0.07 euro (-0.2 percent) to 39.38 euro (2013: 39.45 euro)
- Total performance premium (1.86 euro) and distribution of member bonds (1.07 euro) amounts to 2.93 euro, 0.11 euro (3.6 percent) lower than in 2013 (3.04 euro)
- Milk price for member dairy farmers down by 0.5 percent to 42.70 euro (2013: 42.90 euro)

Per 100 kilos of milk excl. VAT, at 3.47 percent protein, 4.41 percent fat and 4.51 percent lactose

Achievement of *route2020* strategy

- 5.7 percent volume growth in infant nutrition
- 5.4 percent volume reduction in dairy-based beverages due to lower consumption and pressure on market shares
- 14.5 percent volume reduction in branded cheese due to Russian boycott and competition on the European market
- Investments of 656 million euro primarily in capacity expansion and quality improvement
- Updated *Foqus planet* quality and sustainability programme for member dairy farmers
- Substantial improvement in safety and safety awareness; the number of accidents resulting in sick leave down from 140 to 94

Organisation strengthened

- In 2014 FrieslandCampina and China Huishan Dairy Holdings Company Limited signed a letter of intent for a 50-50 joint venture. The company being set up, FrieslandHuishan Dairy, will produce, market and distribute infant nutrition
- FrieslandCampina strengthens its position in West Africa through the acquisition of the dairy activities of Olam in the Ivory Coast
- FrieslandCampina strengthens its position in Italy through the acquisition of the cheese and butter distribution activities of DEK Srl and 80 percent of the shares in Orange Srl

Key figures

in millions of euro unless stated otherwise

	2014	2013	△%
Results			
Revenue	11,348	11,281 [1]	0.6
Operating profit before one-time items [2]	412	513	-19.7
Operating profit before one-time items and currency translation effects	458	513	-10.7
Operating profit	489	313	56.2
Profit without one-time items	258	327	-21.1
Profit without one-time items and currency translation effects	284	327	-13.1
Profit	303	157	93.0
Consolidated statement of financial position			
Total assets	7,676	7,112	7.9
Equity	2,823	2,631	7.3
Net debt [3]	981	696	40.9
Total equity as a percentage of total assets	36.8	37.0	
Cash flow			
Net cash flow from operating activities	545	588	-7.3
Net cash flow from investing activities	-618	-576	-7.3
Investments			
Investments	656	559	17.4
Value creation for member dairy farmers			
in euro per 100 kilos of milk (excl. VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)			
Guaranteed price	39.38 [4]	39.45	-0.2
Performance premium	1.86	1.81	2.8
Meadow milk premium	0.29 [5]	0.31	
Special supplements [6]	0.10	0.10	
Cash price	41.63	41.67	-0.1
Reservation of member bonds	1.07	1.23	-13.0
Milk price	42.70	42.90	-0.5
Interest on member bonds	0.42	0.37	13.5
Retained earnings	1.93	0.45	328.9
Performance price	45.05	43.72	3.0
Additional information			
Employees (average number of FTEs)	22,168	21,186	4.6
Number of accidents with sick leave (per 200,000 hours worked)	0.33	0.62	
Number of member dairy farms at year end	13,696	13,887	-1.4
Number of member dairy farmers at year end	19,054	19,244	-1.0
Total milk processed (in millions of kilos)	10,716	10,659	0.5
Milk supplied by member dairy farmers (in millions of kilos)	9,453	9,261	2.1

1 Net revenue for 2013 has been adjusted due to a change in the accounting policy regarding advertising and promotion costs. This has not affected operating profit.
2 One-time items are a pension income of 131 million euro, a book profit of 20 million euro as a result of the fire in Gerkesklooster and an expense of 20 million euro as a result of the announced closing of the production facility in Belgium in 2014 and a goodwill impairment in 2013.
3 Net debt concerns non-current interest-bearing obligations, obligations to lenders, the net of obligations to and receivables from associated companies minus cash and cash equivalents available for use.
4 The net guaranteed price of 39.29 euro and a settlement of 0.09 euro for the too low estimate over 2014.

	2014	2013	▲▲△%
Consumer Products Europe, Middle East & Africa			
Revenue from third parties	**3,863**	3,937	-1.9
Internal supplies	**351**	246	
Operating profit before one-time items[7]	**260**	247	5.3
Operating profit	**240**	20	
Operating profit as a % of revenue from third parties	**6.2**	0.5	
Employees (average number of FTEs)	**7,931**	8,198	-3.3
Volume	▼	▼	
Consumer Products Asia			
Revenue from third parties	**2,369**	2,274	4.2
Internal supplies	**18**	19	
Operating profit	**438**	385	13.8
Operating profit as a % of revenue from third parties	**18.5**	16.9	
Employees (average number of FTEs)	**7,077**	6,430	10.1
Volume	▼	▲▲	
Cheese, Butter & Milkpowder			
Revenue from third parties	**2,904**	2,831	2.6
Internal supplies	**658**	531	
Operating profit before one-time items[8]	**-111**	81	-237.0
Operating profit	**-91**	81	-212.3
Operating profit as a % of revenue from third parties	**-3.1**	2.9	
Employees (average number of FTEs)	**2,736**	2,659	2.9
Volume	▲	▲▲	
Ingredients			
Revenue from third parties	**1,750**	1,801	-2.8
Internal supplies	**533**	468	
Operating profit	**179**	241	-25.7
Operating profit as a % of revenue from third parties	**10.2**	13.4	
Employees (average number of FTEs)	**3,101**	3,002	3.3
Volume	▼	▲▲	

Revenue by business group

in millions of euro

Consumer Products Europe, Middle East & Africa	**4,214**	33.9%*
Consumer Products Asia	**2,387**	19.2%*
Cheese, Butter & Milkpowder	**3,562**	28.6%*
Ingredients	**2,283**	18.3%*

* Before Other and Elimination of internal supplies

Revenue by geographical region

in millions of euro

Netherlands	**2,686**	24%
Germany	**1,368**	12%
Rest of Europe	**2,714**	24%
Asia and Oceania	**2,978**	26%
Africa and the Middle East	**1,241**	11%
North and South America	**361**	3%

5 Member dairy farmers who put their cows out in the meadow receive a meadow milk premium of 0.50 euro per 100 kilos of milk over 2014. Averaged over all FrieslandCampina member milk this is 0.29 euro per 100 kilos of milk.

6 Special supplements concerns the total amount paid out per 100 kilos for Landliebe milk (1.00 euro) and the difference between the organic milk guaranteed price (49.52 euro) and the guaranteed price. Averaged over all FrieslandCampina member milk this amounts to 0.10 euro per 100 kilos of milk.

7 Operating profit before one-time items concerns restructuring costs in Belgium in 2014 and a goodwill impairment and restructuring costs in the Netherlands in 2013.

8 Operating profit before one-time items in 2014 concerns a book profit of 20 million euro as a result of the fire in Gerkesklooster

Valuable nutrients

The recognition of the role dairy products play in a balanced, healthy diet is increasing. The rapid growth of the world's population is having a substantial influence on the availability of food and raw materials. Milk, by nature, contains essential nutrients such as proteins, vitamins B2 and B12, and minerals such as calcium. By offering trustworthy and tasty products, FrieslandCampina is contributing towards food safety and nutrient security. Providing people around the world with the right nutrients is the challenge.

Report of the Executive Board

A satisfactory result in view of geopolitical tensions and adverse currency effects

FrieslandCampina looks back on a dynamic 2014. Geopolitical tensions and adverse currency effects had more influence on business operations, revenue and result than in other years. Net revenue remained stable at 11.3 billion euro. Profit rose to 303 million euro. The results for 2014 were influenced by a one-time income and negative currency translation effects. FrieslandCampina's pay-out to member dairy farmers remained at a good level and at 42.70 euro per 100 kilos of milk was fractionally lower than in the record year of 2013 (42.90 euro).

Key figures	2014	2013	▲△%
(in millions of euro)			
Revenue	11,348	11,281	0.6
Operating profit before one-time items	412	513	-19.7
Operating profit before one-time items and currency translation effects	458	513	-10.7
Operating profit	489	313	56.2
Profit without one-time items	258	327	-21.1
Profit without one-time items and currency translation effects	284	327	-13.1
Profit	303	157	93.0
Milk price (in euro per 100 kilos of milk)	42.70	42.90	-0.5
Volume	▼	▲	

Revenue stabilises

In 2014 revenue rose by 0.6 percent to 11.3 billion as a result of higher sales prices and increased sales of Friso infant nutrition. Currency translation effects had a net negative effect of 176 million euro on total revenue. The volume in the growth categories dairy-based beverages, branded cheese and ingredients dropped as a result of lower consumption, in part due to higher sales prices in Asia, increased competition in several countries and the Russian boycott of dairy products.

Operating profit development

Operating profit rose by 56.2 percent to 489 million euro. In 2014 a one-time income of 131 million euro was recognised due to an adjustment to the pension plans for employees in the Netherlands. Corrected for this one-time income the operating profit fell by 19.7 percent compared with the operating profit before goodwill impairment in 2013. Corrected for negative currency translation effects operating profit fell by 10.7 percent. Operating profit was also adversely affected by the Russian boycott of dairy products. The estimated direct effect (loss of revenue and profit) and indirect effect (negative market effects) amounted to at least 80 million euro. Other one-time items were a book profit of 20 million euro as a result of the fire at FrieslandCampina in Gerkesklooster and an expense of 20 million euro as a result of the announced closing of the production facility in Sleidinge (Belgium).

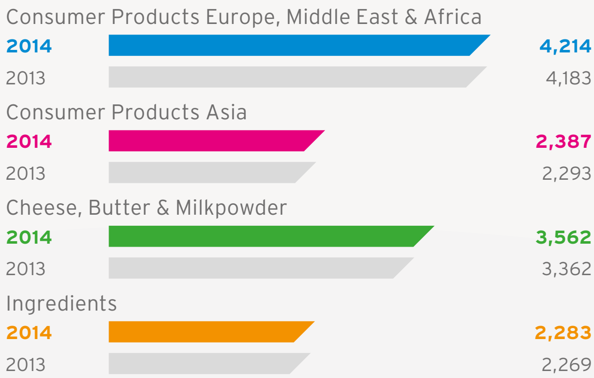
The Consumer Products Europe, Middle East & Africa and Consumer Products Asia business groups improved their operating profit. The main reasons were margin improvement due to higher net prices and cost reductions, especially in Western Europe. In the second half of 2014 cost savings contributed towards the operating profit and market conditions improved slightly.

In 2014 net operating costs amounted to 10,924 million euro, virtually the same as in 2013 (10,991 million euro).

Profit influenced by one-time income and currency effects

Compared with 2013 (157 million euro) profit rose to 303 million euro. Without the goodwill impairment in 2013 and the one-time pension income in 2014 profit would have dropped by 21.1 percent. Corrected for the one-time items and the negative currency translation effects profit would have decreased by 13.1 percent.

Revenue by business group
in millions of euros



The negative net financing income and expenses improved by 7 million euro to 48 million euro negative. Net interest expense was 32 million euro (2013: 31 million euro).

In 2014 the result from joint ventures and associates rose from 8 million euro to 13 million euro.

The tax expense amounted to 151 million euro (2013: 109 million euro). The increase was due primarily to the release of a latent tax liability resulting from the goodwill impairment in 2013.

Profit appropriation

Of the 303 million euro profit for 2014, 70 million euro is attributable to minority interests. The Executive Board proposes that 183 million euro is added to retained earnings and the remaining profit is attributed as follows: 40 million euro to be reserved as interest payment to holders of member bonds and 10 million euro to be reserved as interest payment for the Cooperative loan to the Company.

Company performance price: 45.05 euro

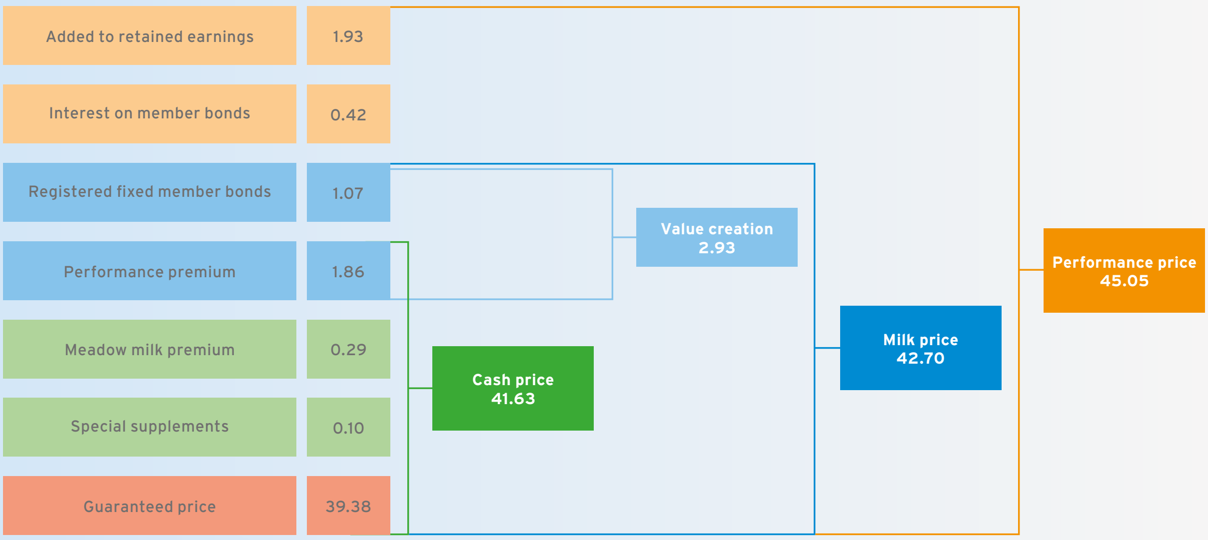
FrieslandCampina's performance price for 2014 amounted to 45.05 euro per 100 kilos of milk excluding VAT (2013: 43.72 euro), an increase of 3.0 percent compared with 2013. FrieslandCampina's performance price comprises the guaranteed price, the special supplements, the meadow milk premium, the performance premium, the distribution of member bonds, the interest on member bonds and the retained earnings. Compared with 2013 the performance price rose as a result of the increased retained earnings because the goodwill impairment in 2013 had a negative effect on the result. In 2014 the retained earnings amounted to 1.93 euro compared with 0.45 euro in 2013.

The guaranteed price for 2014 was 39.38 euro per 100 kilos of milk, a decrease of 0.2 percent compared with 2013 (39.45 euro). The lower guaranteed price was due to the lower milk prices of the reference companies. The special supplements (for Landliebe organic milk) amounted to 0.10 euro per 100 kilos of milk and the meadow milk premium was 0.29 euro per 100 kilos of milk. The performance premium was 1.86 euro per 100 kilos of milk (2013: 1.81 euro). The increase was the result of the adjustment of the profit appropriation whereby as of the 2014 financial year 35 percent of the profit is attributed to the performance premium rather than 30 percent. The distribution of member bonds for 2014 amounted to 1.07 euro per 100 kilos of milk (2013: 1.23 euro). As a result, the milk price for 2014 was 42.70 euro excluding VAT per 100 kilos of milk, 0.5 percent less than in 2013 (42.90 euro).

The organic milk guaranteed price for 2014 was 52.95 euro excluding VAT per 100 kilos of milk (2013: 50.19 euro). The organic milk price is determined by the supply of and

Milk price and performance price 2014

in euro per 100 kg milk, for 600,000 kg milk per year (excl. VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)



Milk price system and profit appropriation 2014–2016

The annual milk price that FrieslandCampina pays the member dairy farmers as of 2014 comprises the guaranteed price, the special supplements, the meadow milk premium, the performance premium (together the cash price) and the distribution of member bonds. The price paid for milk is based on the value of the supplied kilograms of protein, fat and lactose in the ratio 10:5:1. The FrieslandCampina performance premium comprises the milk price, plus the interest on member bonds and the addition to the Company's retained earnings.

The amount of the retained earnings and the performance premium is dependent on FrieslandCampina's profit. Of the net profit of Royal FrieslandCampina N.V., based on the guaranteed price and after deduction of the recompense on member bonds and the profit attributable to minority interests, in the period 2014–2016 45 percent will be added to the Company's equity (previously 50 percent), 35 percent will be paid out to the member dairy farmers as performance premium (previously 30 percent) and 20 percent will be paid out to the member dairy farmers in the form of fixed member bonds. The pay-out of fixed member bonds is calculated on the basis of the value of the milk supplied during the financial year.

In September of each year an interim pay-out, based on the Company's results for the first half of the year and the quantity of milk supplied, may be paid out. The interim pay-out amounts to 75 percent of the pro forma performance premium over the first half of the year. The final settlement is paid out in April/May of the following year on the basis of the Company's annual results and the total quantity of milk supplied.

demand for organic milk on the Western European market and is highly dependent on developments in the world dairy market.

In September 2014 the Cooperative's member dairy farmers received, for the first time, an interim payment of 0.825 euro per 100 kilos of milk. This was 75 percent of the pro-forma performance premium for the first half of the year (0.4125 euro per 100 kilos of milk for a full year). The performance premium for the whole of 2014 amounted to 1.86 euro, which means the member dairy farmers will receive a further 1.45 euro per 100 kilos of milk in performance premium in May 2015.

In total the interest on member bonds rose from 34 million euro to 40 million euro as a result of the increase in the number of bonds and the increase in the interest because as of 1 June 2014 the surcharge on the 6-month Euribor rose from 3.00 percent to 3.25 percent. The interest for the period 1 January – 31 May amounted to 3.327 percent, for the period 1 June – 30 November amounted to 3.649 percent and during December amounted to 3.431 percent. Per 100 kilos of member milk the average interest pay-out was 0.42 euro (2013: 0.37 euro).

Landliebe introduced in Hungary
Since March 2014 consumers in Hungary have also been able to buy Landliebe dairy products in the supermarkets. The Landliebe brand fits in well with current consumer trends. In Germany Landliebe sales have increased steadily in recent years and it is now the largest dairy brand in the country. The Landliebe milk, yoghurt, semolina pudding and desserts stand for authentic and delicious dairy.

Milk supply

In 2014, 9.5 billion kilos of milk was supplied by the Cooperative's members. This meant the quantity of milk supplied was 2.1 percent higher than in 2013 (9.3 billion kilo). Due to the good quality of the feed, the mild winter and the growth of individual dairy farms the milk supply throughout the year was greater than in 2013.

Lower operational cash flow

Cash flow from operating activities fell to 545 million euro (2013: 588 million euro). In 2014 the outgoing cash flow for investments amounted to 618 million euro (2013: 576 million euro). In 2014 656 million euro was invested in production capacity and in efficiency and quality improvements. In addition, 28 million euro was invested in the acquisition of the cheese companies Orange and DEK, both in Italy, and Olam in the Ivory Coast. The cash flow from financing activities amounted to 132 million euro (2013: -168 million euro). In 2013 the perpetual loan of 125 million was repaid and in 2014 more use was made of the credit facility. Net cash and cash equivalents and bank current accounts rose from 510 million euro (end of 2013) to 606 million euro (end of 2014).

Financial position

As at 31 December 2014 net debt amounted to 981 million euro, 285 million euro higher than at the end of 2013. The increase was due primarily to the investments.

Equity amounted to 2,823 million euro as at 31 December 2014 (end of 2013: 2,631 million euro). Net equity increased due the increase in the number of member bonds and the reservation of profit in retained earnings and was to an extent offset by the negative effect of the remeasurement of the pension provision (primarily due to the lower discount rate), which was charged to equity.

Net solvency dropped to 36.8 percent (end of 2013: 37.0 percent). Solvency was positively influenced by the increase in the number of member bonds and the reservation of the profit in equity. The increase in the comprehensive statement of financial position total, as a result of the higher investments and the negative effect of the remeasurement of the pension provision via equity, ultimately led to a drop in solvency. FrieslandCampina continues to amply comply with the bank covenants.

Financing

FrieslandCampina raises loans from different groups of lenders (member dairy farmers, banks and investors). The major portion of the bank loans comprises a committed credit facility with a syndicate of banks. In April 2014 a new facility for an amount of 1.5 billion euro with a term of until at least April 2019 was agreed with the syndicate. The capital portion of the outstanding institutional loans amounts to 0.7 billion US dollars. The dollar liabilities have been converted into euro liabilities via currency swaps.

Risk management financial instruments

FrieslandCampina's multinational character exposes the Company to various financial risks, such as credit risk, interest rate risk, liquidity risk and currency risks. The aim of the general risk policy is to enable financial risks to be identified, analysed and, when necessary, mitigated in order to prevent possible negative financial results. FrieslandCampina's principle financial instruments are loans from credit institutions and institutional investors, member bonds and cash and cash equivalents. Derivative transactions, primarily forward currency transactions and interest rate swaps, are undertaken to manage the currency and interest rate risks arising from FrieslandCampina's activities and the financing of these activities. The treasury policy related to risks concerning financial instruments has been drawn up on the basis of the risk management policy approved by the Executive Board. FrieslandCampina's policy is not to trade in financial instruments for speculative purposes. How the financial instruments are accounted for and further details regarding the financial riskmanagement is explained in Note 30 of the financial statements (page 125).

Pension charges and coverage ratio

The majority of the pension charges are related to the Dutch pension plans. It has been agreed with the social partners that, as of 1 January 2015, FrieslandCampina will switch to a collective available premium plan via a newly established Industry Branch Pension Fund for the Dairy Sector. Up to and including 2014, a provision was formed for future effects related to the pension plans (in particular future salary increases). This is no longer required for the new plan, which means this provision has been released with, as a consequence, a one-time income of 131 million euro.

The pension plans were administered by various external parties. In connection with the establishment of the new industry branch pension fund, at the end of 2014 accrual ceased with the major administrators Avéro Achmea Pensioen and the Stichting Pensioenfonds Campina. The obligation with Avéro Achmea Pensioen regarding the payment of an additional amount if the coverage rate of the separate investment fund drops below the minimum level will continue in the future. The administration agreement with Stichting Pensioenfonds Campina has been terminated and FrieslandCampina is still in discussion with the Fund regarding the amount still to be paid to increase the provision for future administration costs to the required level.

At the end of 2014 the coverage rate of the separate investment fund administered by Avéro Achmea Pensioen was 123.2 percent (end 2013 114.8 percent). This coverage rate is determined on the basis of the insurance conditions agreed with the insurance company and is higher than it would be if it was determined on the basis of actual market value. The coverage rate of the Pensioenfonds Campina rose from 104.8 percent at the end of 2013 to 106.3 percent at the end of 2014. In 2014 FrieslandCampina made additional payments in this fund totalling 36.5 million euro in connection with the settlement of the discussion regarding the long-life risk and raising the level of the provision for expenses.

route2020 strategy progress

FrieslandCampina's *route2020* strategy is aimed at growth and value creation in selected markets and product categories. The developments in a number of strategic focus areas are explained below.

Sustainable growth

In 2014 FrieslandCampina was unable to achieve growth in all three growth categories – infant nutrition, dairy-based beverages and branded cheese. In 2014 the total sales volume was 2.4 percent lower than in 2013. Infant nutrition achieved 5.7 percent volume growth in the consumer and business-to-business markets (2013: 10.8 percent) primarily due to the growth of Friso in China and Hong Kong. The volume in the dairy-based beverages category decreased by 5.4 percent due to higher sales prices in Asia and Africa and lower consumption in Western Europe. The volume in the branded cheese category decreased by 14.5 percent as a result of lower sales in Western Europe and the Russian boycott of dairy products. The volume of commodities rose by 5.9 percent due to the increased supply of milk from member dairy farmers and the lagging demand for dairy-based beverages and branded cheese. In 2014 nearly 40 percent more milk powder was produced than in 2013.

Dutch Lady yoghurt introduced in Vietnam

Since May 2014 FrieslandCampina Dutch Lady yoghurt has been on the shelves of Vietnamese supermarkets. The introduction was FrieslandCampina's response to the growing demand for yoghurt in Vietnam. The yoghurt is produced in the new, fully automated production facility in Binh Duong using the latest pasteurisation technology.

Value creation for member dairy farmers

In 2014, on top of the guaranteed price a total of 277 million euro (2013: 282 million euro) was distributed to member dairy farmers of which the performance premium accounted for 176 million euro (1.86 euro per 100 kilos of milk excluding VAT). The distribution of member bonds for 2014 amounted to 101 million euro (1.07 euro per 100 kilos of milk excluding VAT). In total the Company's value creation per 100 kilos of milk amounted to 2.93 euro (2013: 3.04 euro), a decrease of 3.6 percent.

Acquisitions

In November 2014 FrieslandCampina acquired the dairy activities of Olam in the Ivory Coast. The acquisition has meant an expansion of FrieslandCampina's activities in this West African country in which FrieslandCampina's Bonnet Rouge brand was already available. Olam, which is located in Abidjan and employs 80 people, processes fresh local milk and milk powder into sweetened condensed milk and evaporated milk, which are sold in the Ivory Coast under the brand name Pearl. The acquisition fits in with the *route2020* strategy of further expansion of activities in Africa.

In 2014 China Huishan Dairy Holdings Company Limited and FrieslandCampina signed a joint venture agreement for the establishment of a fully integrated infant nutrition production chain in China. The company, FrieslandHuishan Dairy, which is expected to go into operation in mid 2015, is the first joint venture between a Chinese and a foreign dairy company that will produce, market and distribute infant nutrition made from Chinese milk in China. Both companies have a 50 percent interest in the new company and will also continue their individual activities in the infant nutrition field. The FrieslandHuishan Dairy joint venture is the owner of the modern dairy production facility in Xiushui (Shenyang). The raw milk is supplied by Huishan's own dairy farms. Huishan also produces its own feed for the cows. FrieslandCampina is making its sales and distribution network in China available as well as its expertise and experience in the field of setting up a production chain for infant nutrition and branding and marketing these products in China. Thanks to this combination the joint venture will have full control over the purchase, production, marketing and distribution of its own infant nutrition products. The establishment of the joint venture fits in with the *route2020* strategy of achieving further growth in China.

FrieslandCampina receives the 2014 King Willem I Prize

On Tuesday 14 May Queen Máxima handed Cees 't Hart the King Willem I Prize; the enterprise award for companies that stand out through their 'daring, decisiveness, persistence, sustainability and innovation'. FrieslandCampina was awarded this prize for its long-term vision, but also because of the successful merger between Friesland Foods and Campina, the efforts in the field of sustainability and the investments in innovation.

In Italy FrieslandCampina has acquired the cheese and butter distribution activities of DEK Srl and 80 percent of the shares in Orange Srl. These transactions have strengthened FrieslandCampina's position in the Italian cheese and butter market. The acquisition fits in with the *route2020* strategy of achieving growth with branded cheese.

Investments

In 2014 FrieslandCampina invested 656 million euro. The aim of the investments is growth in the growth categories, ensuring the anticipated increasing quantity of milk from the member dairy farmers due to the EU milk quota ending in 2015 can be processed, and the further improvement of quality, product safety and efficiency. Since 2009 a total of 2.5 billion euro has been invested in property, plant and equipment, of which 1.8 billion (around 70 percent) has been invested in the Netherlands.

Investment projects completed in 2014

FrieslandCampina Domo, Bedum (Netherlands)
Investment: 75 million euro
Duration: 2013–2014
Goal: expansion of milk processing capacity and infant nutrition production by installing new spray-drying towers and whey demineralisation

FrieslandCampina DMV, Veghel (Netherlands)
Investment: 56 million euro
Duration: 2013-2014
Goal: renovation and expansion of the capacity for receiving milk, new decreaming facilities, the expansion of production capacity and efficiency improvements

FrieslandCampina Leeuwarden (Netherlands)
Investment: 40 million euro
Duration: 2013-2015
Goal: first phase of the renovation and expansion of milk processing capacity and the expansion of the packaging capacity of evaporated and condensed milk for export

The most important on-going investment projects

FrieslandCampina, Leeuwarden (Netherlands)
Investment: 138 million euro
Duration: 2014-2016
Goal: phase two of the expansion of milk processing capacity through renewing and expanding the production capacity of evaporated and condensed milk for export.

FrieslandCampina Domo, Borculo (Netherlands)
Investment: 135 million euro
Duration: 2014-2016
Goal: expansion of production capacity by building a new production facility with spray-drying towers for milk powder and ingredients

FrieslandCampina Domo, Borculo (Netherlands)
Investment: 41 million euro
Duration: 2014-2016
Goal: expansion of production capacity for infant nutrition ingredients

Installing new condensers in Leeuwarden (Netherlands)

Building a new production facility in Borculo (Netherlands)

The production line in Leeuwarden (Netherlands) goes into service

Alaska Milk Corporation / FrieslandCampina Kievit in San Pedro, Laguna, (Philippines)
Investment: 36 million US dollars
Duration: 2013-2015
Goal: expansion of creamer production capacity

FrieslandCampina Butter, Lochem (Netherlands)
Investment: 10 million euro
Duration: 2014-2015
Goal: expansion of production capacity for butter and cream products

Investment projects 2015

The budget for 2015 includes investments amounting to around 600 million euro. In addition to the on-going investment projects listed above and various projects in the field of quality improvements, the most important new projects are:

FrieslandCampina Domo, Beilen (Netherlands)
Investment: 57 million euro (2015)
Duration: 2015-2016
Goal: expansion of capacity for small packaging of infant nutrition

FrieslandCampina Cheese, Gerkesklooster (Netherlands)
Investment: 30 million euro (5 million euro in 2014, 25 million euro in 2015)
Duration: 2014-2015
Goal: rebuilding of the cheese warehouse and brining room destroyed by fire in 2014

Strengthening the organisation

In its efforts to achieve a more streamlined organisation and a better utilisation of its scale, in 2014 FrieslandCampina implemented various changes in the organisation:

- As of 1 January 2014 the merger of FrieslandCampina Professional and FrieslandCampina Out-of-Home into the new operating company FrieslandCampina Foodservice. Service to customers in the catering sector, wholesale, bakery and fast food chains in the Netherlands, Belgium, Germany, France and Italy will be integrated and provided by the new operating company.
- As of 1 January 2014 the integration of the branded cheese sales activities in Germany into FrieslandCampina Germany so the activities related to the sale of all branded products to supermarkets are clustered into one organisation.

Market developments in 2014

In 2014 milk production increased worldwide. In the European Union production rose by 4.1 percent, in the Netherlands it rose by 1.6 percent. The reason behind the increase was the mild 2013-2014 winter compared with the severe 2012-2013 winter, the high quality of the cattle feed and the good milk prices received by the dairy farmers.
In New Zealand milk production rose by 8.8 percent. Milk production also increased in Australia, the United States of America and Latin America.

Due to the high milk production the offering of cheese, milk powder and butter rose, especially in the first half of the year. In the second half of the year China imported less milk powder than in the same period in 2013. This was due to stagnating consumption, high stocks, increased local milk production and worsening prospects. On 6 August 2014 Russia reacted to the economic sanctions imposed on it by western countries as a result of the conflict in Ukraine by banning the import of dairy products, except infant nutrition, from the European Union, the United States of America, Australia and Norway. This led to a substantial drop in the export, especially of cheese, from the European Union and, in particular, the Netherlands as the largest cheese exporter. Cheese producers were compelled to find new markets for their cheese and to process some of the milk into alternative products. In 2013 257,000 tons of cheese was exported from the EU to Russia, in 2014 that dropped by half to 133,000 tons. Civil wars in Syria and Iraq and the outbreak of the Ebola virus in West Africa resulted in the substantial reduction of dairy imports into these countries.

As a result of all the market effects, the net listed prices for cheese, butter and milk powder dropped in 2014.

Dutch listed prices (cheese: Hannover listed prices)

in euro per ton of product	1 January 2014	31 December 2014	▲%
Cheese (Hannover)	3,780	2,550	-32.5
Full fat milk powder	3,790	2,170	-42.7
Skimmed milk powder	3,300	1,730	-47.6
Whey powder	990	740	-25.3
Butter	4,060	2,760	-32.0

- In April 2014 FrieslandCampina Ingredients opened a new sales office in São Paulo, Brazil. This new sales office will enable FrieslandCampina to respond more effectively to the growing demand for ingredients and a complete range of infant nutrition from clients active in South America.
- To enable FrieslandCampina to respond more effectively to rapid market changes, in 2014 a process to transform FrieslandCampina into a team-based organisation was started. As a result changes in management and working methods were implemented. The changes include:
  - the operating companies will focus on commercial activities;
  - production and production planning will be managed by the business group rather than the operating company;
  - the marketing and innovation of the major brands has been moved from the operating company to the category teams;
  - the financial, legal and fiscal structure has been linked to the adjusted organisation.

Project Summit started in 2011, a good two years after the merger of Friesland Foods and Campina at the end of 2008. The project focuses on achieving uniform planning and information systems, processes and data for all FrieslandCampina operating companies. This will enable FrieslandCampina to operate more efficiently, utilise its scale advantages more effectively, reach decisions faster and respond better to external and internal developments. The new system replaces over 17 different old systems. The 180 million euro that has been invested in the project to date has included the initial cost of the designs of the standard processes and system functionality. Considerable attention is being paid to the coaching of the employees who must adopt a new way of working. The investments are offset by savings as soon as the new processes are implemented. During 2014 the Summit platform (SAP) was successfully implemented at six facilities. Currently a total of 16 facilities and over a quarter of all the employees who will ultimately be involved are already working with the new platform. The programme is expected to be completed in 2018.

DMV Excellion EM 7 HV

FrieslandCampina DMV has developed Excellion EM7HV (formerly known as Caseinate XL), a high-viscosity natrium caseinate. Due to their amino acid composition, caseinates are ideal for use in clinical, infant, diet and sports nutrition. Caseinates are produced at FrieslandCampina DMV in Veghel. In recent years extensive work has been carried out on the development of the optimum structure of the product, the acquisition of application expertise and the production process. The product will be introduced on the market in the second quarter of 2015.

Safety

Safeguarding the safety and health of employees and contractors is the highest priority for FrieslandCampina. In 2014 further major progress was made in the area of safety. The number of accidents requiring sick leave at FrieslandCampina facilities worldwide fell from 140 to 94, a reduction of 33 percent. The ratio of accidents requiring sick leave per 200,000 hours worked dropped from 0.62 in 2013 to 0.33. This means FrieslandCampina is ahead of schedule with achieving its original target; to reduce the number of accidents resulting in sick leave per 200,000 hours worked to 20 percent of the 2011 figure by 2020. The new, more stringent, target is fewer than 0.05 accidents resulting in sick leave per 200,000 hours worked. This equates to 1 accident resulting in sick leave a month worldwide. And that is still one accident a month too many.

At 23 of FrieslandCampina's 115 facilities not a single accident resulting in sick leave took place for a whole year. By the end of 2014 eight facilities had reached 1,000 accident-free days and, for this achievement, received the FrieslandCampina Safety Award introduced in 2014.

To protect employees from the major risks and achieve the target, seven 'Life Saving Rules' have been formulated. Everyone who works at or for FrieslandCampina is responsible for his or her own safety and the safety of others.

The seven FrieslandCampina 'Life Saving Rules'

1. I work safely
   Everyone, both at work and when travelling to or from work, complies with the safety agreements, behaves in a safe manner, makes others aware of safety aspects and, by so doing, looks after his/her own safety and the safety of others.

2. Block, mark and check machinery (Lock out, Tag out, Try out)
   Before maintenance, when solving disruptions or in the case of a calamity, ensuring that plant and machinery is made safe and cannot be restarted, including by attaching locks and labels.

3. Only work with a work permit and constantly check and re-check safety
   Only work with a valid work permit and inventory dangers before work starts.

4. Work safely at height
   Make sure you cannot fall from a height. Work from a platform, a ladder is only a means to reach a platform.

5. Work safely in enclosed spaces
   Identify and label enclosed spaces that cannot be entered without a work permit and work with the correct safety equipment.

6. Safe internal transport
   Ensure pedestrians and vehicles are kept completely separate.

7. Safety on the road
   Everyone behaves in an exemplary manner and drives safely.

In 2014 the most common causes of accidents were related to:
1. Machinery safety (revolving parts, steam, pressure)
2. Falls, trips, slips (falling off ladders, slippery floors, stumbling)
3. Internal transport (fork-lift truck and pallet truck collisions)

Visible and inspiring leadership and exemplary conduct in the field of safety form the basis for achieving the target: zero accidents. Zero accidents will be achieved by changing people's behaviour not by setting more rules. Worldwide 100 (facility) managers have followed safety management courses. Working safely with contract staff remains a key attention point. Working safely with suppliers is a crucial aspect of the safety policy. In 2014 special attention was also paid to safety in the office environment.

For 2015 the emphasis will be on the sustainable implementation of the 'Life Saving Rules', working safely with contract staff and the further reinforcement of management and (role model) behaviour in the field of safety.

Innovation

Throughout 2014 extra attention was paid to the even better understanding and application of the micro-nutrients in milk. In the coming years new knowledge, research and technological improvements will enable the nutrients in milk to be retained more efficiently in the different dairy products. The specific adaption of products and recipes will also enable the specific dietary requirements of different groups of people around the world to be met more effectively.

The FrieslandCampina Innovation Centre on the Wageningen University & Research Centre campus opened by Queen Máxima in October 2013 has come up to expectations. One of the starting points is the stimulation of cooperation between and with the different operating companies and business groups and with external parties. The introduction of yoghurt to the Vietnamese market in 2014 was achieved in part thanks to the bringing together of employees from Germany, the Netherlands and Vietnam and experts from different disciplines.

In the research & development programme considerable attention is paid to the continuous improvement of the quality of the different production processes, especially in the area of infant nutrition. This takes place in close cooperation with the FrieslandCampina Research & Development Centre in Singapore. Using gentler processes means the original characteristics and nutritional value of milk and other raw materials are retained more effectively, which makes the products tastier and more digestible. As a result the recipes for Friso infant nutrition have been improved.

FrieslandCampina Innovation Centre
The FrieslandCampina Innovation Centre on the Wageningen University & Research Centre campus, which opened in 2013, is fulfilling expectations. One of the guiding principles is the stimulation of cooperation between and with the various operating companies and business groups and with external parties.

The technological optimisation of condensers makes a potential energy reduction of 60 percent achievable. In the coming years the knowledge gained will be applied further and also for other technologies. In the packaging field work continued on the development of new, more sustainable packaging. In 2015 the first of these packagings will be launched on the market.

In the year under review the total cost of the research & development activities amounted to 78 million euro (2013: 77 million euro).

Quality

To safeguard the safety and quality of its products throughout the entire production chain, FrieslandCampina has its own integral quality system, called *Foqus*. With *Foqus* FrieslandCampina offers consumers, customers and the authorities the guarantee that the products and production processes meet the stringent standards in the field of food safety, quality, safety, working conditions, fire protection and environment. An extensive programme of training courses and audits helps safeguard the implementation and continuous monitoring of *Foqus* in the production facilities, on the member dairy farms and at the suppliers of raw materials.

FrieslandCampina, together with the Cooperative's member dairy farmers, commands the entire production chain from farm to end product. The guiding principles of the quality control are the statutory stipulations supplemented with additional demands. The various international standards, such as GMP+, HACCP, ISO 9001, ISO 22000, FSSC 22000, OSHAS 18000 and ISO 14000 are integrated into *Foqus* so that both FrieslandCampina's customers and the consumers can be assured that the products are safe and of the highest quality, and are produced sustainably. The *Foqus* stipulations are reviewed, and if necessary revised, each year to ensure the system always reflects the latest knowledge and insights.

Continuous improvement is the starting point of the *Foqus* programme and the driving force behind various investment projects. This has led, for example, to steps being taken at various production facilities in the Netherlands and also at the Alaska Milk Corporation in the Philippines. During 2014 investments in the improved safeguarding of food safety, including through the building of a new laboratory, also took place at FrieslandCampina Wamco Nigeria.

Foqus commands the entire production chain 'from grass to glass' and starts with the Cooperative's member dairy farmers. In 2014 the *Foqus* module for the member dairy farmers (*Foqus planet*) was completely reviewed. Safeguarding quality and food safety has received even more emphasis and the further stimulation of sustainability in dairy farming is also a key factor via various programmes through which member dairy farmers can achieve additional income. Transparency and a clear and dynamic bonus-malus policy are a priority.

In 2014 extra attention was paid to safeguarding the quality and safety of the cattle feed fed to the member dairy farmers' cows. Member dairy farmers may only purchase feed from suppliers with GMP+ certification and appropriate liability insurance. From 2015 the soya in the feed must be 100 percent sustainably produced. Together with the Dutch Dairy Organisation (NZO) FrieslandCampina has worked towards the setting-up of a new organisation, SecureFeed, that must improve the safeguarding of cattle feed quality. The intention is that dairy farmers may only purchase cattle feed from companies affiliated with SecureFeed.

European Union conditions related to the merger

The independent Dutch Milk Foundation (DMF) implements the merger conditions stipulated by the European Union in 2008 in respect of the merger of Friesland Foods and Campina. Each year FrieslandCampina must make up to 1.2 billion kilos of Dutch raw milk available to producers of fresh dairy products and/or naturally matured cheese at the FrieslandCampina guaranteed price less 1 percent. The 1 percent discount has not been applicable since 1 July 2014.

The business units that had to be sold at the time of the merger and that are now part of Arla Foods and Deltamilk utilise this option and the volumes reserved for them. Of the available 1.2 billion kilos of milk the DMF reserved 0.9 billion kilos for these market players. The contract signed by FrieslandCampina and A-ware in December 2013 for the supply of raw milk went into force on 1 March 2015. This contract provides for the supply of the remaining portion of the 1.2 billion kilos of raw milk.

The Foundation also administers the severance scheme for FrieslandCampina's Dutch member dairy farmers. In the period 1 January to 31 December 2014 the Dutch Milk Foundation approved nine requests (the same number as in 2013) from dairy farmers who wished to terminate their membership of Zuivelcoöperatie FrieslandCampina under the severance scheme of 5.00 euro per 100 kilos of milk. In total this involved 5.6 million kilos of milk. The volume of milk from Dutch member dairy farmers that leave FrieslandCampina through the severance scheme is deducted from the quantity of milk available to the DMF.

FrieslandCampina's Dutch member dairy farmers who wish to switch to Deltamilk or Arla Foods may terminate their membership at any moment and following the normal procedure utilising the severance scheme. The milk volumes they take with them are deducted from the volumes available to Deltamilk or Arla Foods. If a member dairy farmer who wishes to move to a party other than Deltamilk or Arla Foods request the severance premium after 1 September, their request is not honoured immediately. Severance with the awarding of the severance premium is only possible after each full year. Requests submitted between 31 August 2014 and 31 August 2015 can be transferred as of 1 March 2016 or later. This is an annually recurring cycle.

Since it went into effect in 2009, 93 member dairy farmers have utilised the severance scheme. The total quantity of milk involved is 68 million kilos.

Severe fire at FrieslandCampina Gerkesklooster

As a result of the intense fire that broke out on 29 July 2014 the cheese warehouse and part of the brining room were destroyed. Thanks to the incredible efforts of the employees, just a few months after the fire, Valess, milk powder and cheese could once again be produced. A start has now been made on restoring the brining room and building a completely new automated cheese warehouse with the capacity to store 2,100 tons of cheese, a cheese processing line and a dispatch area. The building activities are scheduled to be complete in November 2015. A budget of 30 million euro is available for the rebuild.

Sustainable growth

FrieslandCampina's ambition is to achieve climate-neutral growth. This means increased production must not lead to increased emissions of greenhouse gases. Towards this end FrieslandCampina is striving for an efficient and sustainable production chain. That starts with sustainable dairy farming, the purchase of sustainable (agricultural) products and the reduction of energy and water usage at its production facilities. The use of sustainable energy, preferably generated by member dairy farmers, also contributes towards the achievement of FrieslandCampina's climate-neutral growth ambition. A programme aimed at making transport more sustainable is reducing the use of fossil fuels in the transport of milk and end products.

Consumer Products Europe, Middle East & Africa

The Consumer Products Europe, Middle East & Africa business group's revenue from third parties fell by 1.9 percent to 3,863 million euro. Volumes were under pressure due to the relatively high sales prices, the declining dairy market in the Netherlands and the deliberate termination of contracts by FrieslandCampina. Operating profit rose from 20 million euro in 2013 to 240 million euro in 2014. In 2013 a goodwill impairment was implemented. Operating profit improved thanks to significant cost-savings and efficiency improvements.

Volumes under pressure due to relatively high sales prices, declining dairy consumption in the Netherlands and the termination of contracts

Revenue from third parties down because price increases could not fully offset the decreasing volumes

Operating profit up due to price increases and cost reductions resulting from restructuring in the Netherlands, Germany, Belgium and Hungary

Market shares under pressure in the Netherlands, Germany, Belgium and Nigeria

Key figures	**2014**	2013	▲△%
(in millions of euro)			
Revenue from third parties	**3,863**	3,937	-1.9
Internal supplies	**351**	246	
Operating profit before one-time items	**260**	247	5.3
Operating profit	**240**	20	
Operating profit as a % of revenue from third parties	**6.2**	0.5	
Employees (average number of FTEs)	**7,931**	8,198	-3.3
Volume	▼	▼	

In the Netherlands and Belgium revenue fell as a result of lower volumes. Operating profit rose due to cost savings resulting from reorganisations in previous years. Dairy consumption declined still further and, in part due to the high prices, branded products lost market share to private label products and hard discounters. Chocomel, Campina Boer en Land and Optimel Greek-style yoghurt showed good growth and the market shares of the Appelsientje and CoolBest fruit juices and DubbelFrisss fruit drinks increased. In October 2014 it was announced that most of the production currently carried out at FrieslandCampina's production facility in Sleidinge (Belgium) will be transferred to the production facility in Aalter and the facility in Sleidinge will be closed during 2015. This will mean the loss of 134 jobs in Sleidinge and the creation of 20 new jobs in Aalter.

In Germany revenue fell due to the sale of the Brandenburg brand at the end of 2013 and reduced volumes of Landliebe milk due to the high price. By contrast, sales of the popular Landliebe yoghurts rose. Operating profit improved as a result of the implemented reorganisations and ended up positive for the first time in years.

In 2014 the Retail Brands Europe operating company (sale of private label products) performed better than in the previous year and achieved a positive result. Although various new contracts were signed, the volume decreased due to the termination of loss-making contracts.

From January 2014 the activities of FrieslandCampina Professional and Out-of-Home were clustered together into FrieslandCampina Foodservice. Although volumes were down, the revenue of this new operating company rose slightly thanks to price increases. Operating profit was down due to reduced sales of branded products to the catering and wholesale sectors and due to the high cost price of fats. Sales of products to bakeries, restaurants and fast-food chains developed positively.

In Greece revenue fell due to lower volumes. Economic and political uncertainties once again led to a reduction in consumer spending, especially in the last months of 2014. Operating profit was under pressure due to reduced sales of condensed milk. In a shrinking market the market shares improved with the exception of Milner.

In Hungary revenue was down slightly, but operating profit improved due to reorganisations and cost savings. New production lines for Mia desserts and Milli cream products went into service at FrieslandCampina Hungary in Mátészalka. The facility in Debrecen is for sale. The introduction of Landliebe desserts was positive. In Romania revenue rose but operating profit fell. Napolact was able to improve its market position. In 2015 the facility in Carei will close.

In Russia FrieslandCampina's production facility in Stupino was working at full capacity producing dairy products. Revenue and operating profit were, however, under pressure as a result of negative currency translation effects and reticent consumer spending due to reduced buying power. The locally produced Fruttis yoghurt was one of the few products to achieve growth. As a result of the boycott on agricultural products from the EU, since 6 August 2014 Russia has been prohibited from importing any dairy products apart from baby food.

FrieslandCampina Wamco Nigeria had a disappointing year in which revenue for the year remained virtually the same as for 2013. Volume and operating profit were down due to increasing competition in the market, political unrest and unsafe conditions in the north of the country that made distribution more difficult and put market shares under pressure. In the last months of the year operating profit was even more adversely influenced by the low oil price which had a very negative effect on the Nigerian economy, buying power and currency.

FrieslandCampina worked on strengthening its position in a number of West African countries. In October 2014 FrieslandCampina acquired the dairy activities of Olam in the Ivory Coast. Partly due to this acquisition and organic growth in Ghana, Benin and Gabon, FrieslandCampina West Africa's revenue and operating profit increased further. The most important product is evaporated milk sold under the Bonnet Rouge brand.

In the Middle East (Saudi Arabia, United Arab Emirates and Oman) revenue and operating profit improved substantially compared with 2013. In the second half of the year in particular the operating company's result improved because price increases could only be passed on after considerable delays and after specific approval from the government. The Rainbow market share increased still further.

Attention points in 2015

After the focus on restructuring in 2012-2014, in 2015 the emphasis will be on investments in advertising, brand innovations and the roll-out of proven concepts to other countries. Of the total advertising & promotion expenses, 40 percent will be invested in the six largest brands - Campina, Frico, Milner, Landliebe, Peak and Rainbow. The aspects on which attention will be focused will include the nutritional value of dairy, innovations and more sustainable packaging. The emphasis will also be on reinforcing the market approach and distribution in Nigeria, the Middle East and Russia. Further cost savings will remain a focal point.

Facebook campaign to promote the additions to the Optimel Greek-style yoghurt range

New design Debic products for professional customers

Peak campaign in Nigeria

Consumer Products Asia

The Consumer Products Asia business group improved its revenue and operating profit thanks to a good second half of 2014. Revenue from third parties rose by 4.2 percent to 2,369 million euro (2013: 2,274 million euro). The negative currency translation effect on revenue amounted to 114 million euro. Corrected for currency translation effects revenue rose by 9.2 percent. Operating profit rose by 13.8 percent to 438 million euro (2013: 385 million euro) despite a negative currency translation effect of 58 million euro. Friso infant nutrition once again achieved the most robust growth due to increased sales, especially in China and Hong Kong. The relatively high prices of dairy-based beverages put market shares under pressure in several countries.

Further growth of Friso infant nutrition in nearly every country

Revenue and operating profit growth in China and Hong Kong

Operating profit up by 13.8 percent

Negative currency translation effect on revenue and result

Key figures	**2014**	2013	▲△%
(in millions of euro)			
Revenue from third parties	**2,369**	2,274	4.2
Internal supplies	**18**	19	
Operating profit	**438**	385	13.8
Operating profit as a % of revenue from third parties	**18.5**	16.9	
Employees (average number of FTEs)	**7,077**	6,430	10.1
Volume	▼	▲	

Infant nutrition

Friso improved its market position in virtually every market. The most robust growth was achieved in China and Hong Kong. The introduction of Friso in Indonesia and the Philippines proceeded as planned. In a number of countries Landmark infant nutrition was introduced under brands such as Dutch Lady and Frisian Flag as a successor to the 123 and 456 brands. The product concept is based on a child's different development phases.

Dairy-based beverages

The dairy-based beverages market had a difficult year. At the beginning of the year high sales prices put volumes and market shares under pressure. The high price levels were due to the high price of dairy raw materials and negative currency translation effects. This made products even more expensive in local currencies. In the second half of the year volumes and market shares in certain segments gradually started to recover. Over the year as a whole, however, volume was down on 2013. Sales in Hong Kong and the Philippines did develop positively.

Growth stagnates

In Malaysia, Singapore, Indonesia, Vietnam and Thailand volume, revenue and result were all down on 2013. In these countries the stagnation of economic growth and the high prices of dairy products meant the trend in the dairy market was downwards. The market shares of Frisian Flag, Dutch Lady and Foremost were all under pressure due to increasing competition. In May 2014 yoghurt was introduced in Vietnam under the Dutch Lady brand in response to the increasing demand for this category of dairy product. In Vietnam government measures led to a reduction in infant nutrition sales prices. Governmental price restrictions in Thailand meant the higher costs of raw milk and raw materials could not be fully passed on to the market.

To offset the pressure on margins arising from the high raw material prices and rising salary costs, cost savings were implemented in all the countries. In the area of distribution, projects aimed at the further optimisation of the number of sales outlets and the range of products was started in several countries.

Growth markets

FrieslandCampina continued to develop well in China, Hong Kong and the Philippines. In these countries volume, revenue and operating profit all rose. In China Friso successfully introduced a 'bag-in-box' packaging concept on the market via the e-commerce canal. Black & White evaporated milk, for many years the market leader in the tea shops in Hong Kong, is now also available in tea shops in China. The number of employees in China rose in response to the growing demand. In Alaska Milk Corporation's production facility in San Pedro in the Philippines work started on a large investment project for the expansion of the production capacity of creamers for FrieslandCampina Kievit.

Development of local dairy farming

FrieslandCampina is contributing towards the further development of local dairy farming in Indonesia, Vietnam, Thailand, Malaysia, China and Nigeria through its Dairy Development Programme. The programme helps local dairy farmers improve the quality and volume of their milk production by sharing knowledge in the field of breeding, animal feed, animal health, milking and hygiene. In 2014 the Dutch Dairy Enterprise Center opened in Beijing, China. With the help of expertise in the Netherlands, the centre focuses on the improvement of food safety, quality and productivity in the Chinese dairy chain.

Attention points in 2015

In 2015 the priority will be the recovery of volume growth in the Asian countries. In China Friso infant nutrition is expected to achieve further growth through the expansion of the distribution network to more cities and increasing sales via e-commerce. FrieslandCampina is responding to the increasing demand for 'ready-to-drink' products with new concepts for both children and adults that answer the need for nutrition. Targeted investments in advertising and promotion must contribute towards the growth of both volumes and market shares.

Promotional campaign for Dutch Lady 20+ in Vietnam

Advertising campaign for Friso in Hong Kong

Frisian Flag Fun For Kids in Indonesia

Cheese, Butter & Milkpowder

The total revenue of the Cheese, Butter & Milkpowder business group rose by 2.6 percent to 2,904 million euro. The revenue rose as a result of volume growth and despite lower sales prices for milk powder, butter and cheese. Operating profit dropped to -91 million euro and showed the effects of the turbulent market conditions in 2014. It should also be remembered that 2013 was an exceptionally positive year for this business group.

Steep decline in commodity prices due to increased milk supply and lagging sales as a result of lower demand for milk powder from China and Southeast Asia plus the Russian boycott

Negative results due to commodity prices being lower than the guaranteed price

Costs reduced to compensate for pressure on margins

Insurance company compensates for the fire damage at FrieslandCampina Cheese in Gerkesklooster

Key figures	**2014**	2013	Δ%
(in millions of euro)			
Revenue from third parties	**2,904**	2,831	2.6
Internal supplies	**658**	531	
Operating profit before one-time items	**-111**	81	-237.0
Operating profit	**-91**	81	-212.3
Operating profit as a % of revenue from third parties	**-3.1**	2.9	
Employees (average number of FTEs)	**2,736**	2,659	2.9
Volume	▲	▲	

Decreasing cheese sales prices

In the course of 2014 the sales prices of cheese dropped. In the first half of the year the milk supply in the EU increased by 5 percent and there was a shortfall of milk powder production capacity. This made it necessary to produce more cheese. At the same time, many Dutch and German cheese manufacturers had their licences to export to Russia revoked by the Russian authorities. This led to an increase in cheese stocks in Europe and a drop in the cheese price. In June, after the peak in milk supply was over, the cheese price stabilised.

In the second half of 2014 further price reductions were caused by the Russian boycott of dairy produce from the EU from August on. Basic cheese prices were the first to be under pressure followed by naturally ripened cheese and, in particular, the Maasdam cheeses. In a relatively short space of time FrieslandCampina cheese succeeded in finding alternative buyers for the cheese originally intended for Russia. The operating company was able to increase its market share of sales to major customers.

As a result of a fire at FrieslandCampina Cheese in Gerkesklooster that broke out on 29 July and the Russian boycott, in 2014 FrieslandCampina produced less cheese than in 2013. The fire destroyed the entire cheese warehouse and part of the brining room. The damage to buildings, machinery, stocks and the consequence of this damage added up to around 31 million euro in 2014. Thanks to the considerable efforts of FrieslandCampina's employees and others, on 3 September cheese could once again be manufactured. This had been preceded by the restart of Valess fibre production on 15 August and milk powder production on 23 August. In October the decision was taken to rebuild the cheese warehouse and brining room. This project, which will cost around 30 million euro, is expected to be completed in November 2015.

Zijerveld, which was acquired in 2013, improved its position in the cheese market. A more effective response to the demand for cheese from the various sales canals such as supermarkets, market trading and specialist cheese shops is now possible.

Sales prices lower than the guaranteed price

In 2014 FrieslandCampina Butter produced more butter as a result of the increased milk supply. Although this increased revenue slightly, operating profit was negative due to sales prices being lower than the guaranteed price. FrieslandCampina Milkpowder also had a difficult year. Reduced demand from China and Southeast Asia combined with higher global production drove down the sales prices. Prices were then pushed down even further by the Russian boycott as cheese manufacturers began producing milk powder instead of cheese. These developments also led to an increased volume of milk powder at FrieslandCampina Milkpowder and the low sales prices had a substantial negative effect on operating profit.

Improved result for FrieslandCampina Export

FrieslandCampina Export achieved a slight increase in its revenue and volume despite difficult market conditions in Libya and Venezuela, price reductions as a result of the Russian boycott and a significant increase in competition in North and Central America. Volume growth in the operating company's strategic markets amounted to 7 percent. The result improved due to price increases that could be passed on to the market in the second half of 2013 and the first half of 2014. The weaker euro compared to the US dollar also had a positive effect on the result.

Attention points in 2015

Cost reductions continue to be important for the business group. Growth is anticipated through more intensive collaboration with clients, the further growth of Zijerveld in Europe and the growth of export outside of Europe.

Expansion of the Dutch Lady export range

Castillo de Holanda promotional campaign for Gouda cheese

New Gouda cheese slicing facility in Sénas, France

Ingredients

The Ingredients business group's revenue decreased by 2.8 percent to 1,750 million euro (2013: 1,801 million euro). The demand for high-quality dairy ingredients levelled off. Increasing competition and a large supply put pressure on sales prices in a number of markets. In combination with the high guaranteed price this resulted in operating profit dropping by 25.7 percent to 179 million euro (2013: 241 million euro).

Weak demand for dairy ingredients coupled with a greater supply puts pressure on sales prices and margins

Delayed start-up of new processing capacity

Cost reductions and efficiency contribute towards the result

Further investments in capacity expansion

Key figures	2014	2013	Δ%
(in millions of euro)			
Revenue from third parties	1,750	1,801	-2.8
Internal supplies	533	468	
Operating profit	179	241	-25.7
Operating profit as a % of revenue from third parties	10.2	13.4	
Employees (average number of FTEs)	3,101	3,002	3.3
Volume	▼	▲	

A sector-wide increase in the capacity for products with added-value increased the offering of ingredients. At the same time the demand for dairy ingredients for various industrial applications levelled off due to high stock positions and lagging consumption in various regions.

In April 2014 FrieslandCampina Ingredients opened a new sales office in São Paulo, Brazil. This new sales office will give FrieslandCampina a better base from which to respond to the demand for ingredients and complete infant nutrition from clients in South America. From January 2015 the management and commercial activities of FrieslandCampina Ingredients' operating companies in the Netherlands have been carried out from FrieslandCampina's central office in Amersfoort.

FrieslandCampina Domo: volume, revenue and pressure on margins

FrieslandCampina Domo was hindered by the increasing offering of whey derivatives and lactose. At the same time, an important client's requirement for ingredients decreased due to market developments. As a result, the operating company's volume, revenue and result were lower than for the previous financial year. The delay in the delivery of the new powder towers in Beilen (Netherlands), which resulted in higher start-up costs than foreseen, also caused a drop in the result. Since the third quarter the new installations have operated at full capacity and as expected. This means improved service can also be offered to new clients. Production of Friso infant nutrition for other FrieslandCampina business groups increased substantially. Quality assurance was improved further and more stringent internal quality demands were met. The Beilen production facility was inspected and approved by both the Chinese and Russian authorities during 2014.

FrieslandCampina Kievit improves its operating profit

At FrieslandCampina Kievit volume and revenue were also down compared to 2013. Operating profit did, however, improve compared to 2013 thanks to cost control and efficiency improvements. Supply, and therefore competition, increased especially in Eastern Europe.
To continue standing out in the market, FrieslandCampina Kievit introduced the Creamer 2.0. This creamer distinguishes itself by its creamier taste. As of 1 April 2014 the activities of FrieslandCampina Kievit and Satro were merged in the FrieslandCampina Kievit operating company.

Caseinates under pressure

FrieslandCampina DMV's sales were down due to the relatively high price level, increased price competition and substitution. Sales of caseinates in particular were under pressure and this resulted in lower volume, revenue and operating profit. In the area of nutrients and ingredients for sports food, new products were introduced and generated considerable interest, although volumes remained limited in relation to other categories. In Veghel (Netherlands) a new de-creaming facility went into operation in the second quarter.

Nutrifeed, Creamy Creation and DFE Pharma

In a market characterised by fierce price competition, Nutrifeed (young animal feed) improved its result substantially while its volume and revenue remained the same. At Creamy Creation (cream liqueurs) volume, revenue and result were slightly down due to reduced sales, especially in Africa. The DFE Pharma joint venture's volume, revenue and result were lower than for the previous financial year. The high offering of lactose put volumes and prices in the commodity segment under pressure.

Capacity expansion

FrieslandCampina expects the first phase of the ingredient production capacity expansion in Borculo to go into service in May/June 2015. This new construction is a response to the anticipated increasing supply of milk from the Cooperative's member dairy farmers. The construction will incorporate technical and sustainability innovations, such as condensers that can reuse the heat several times and use energy from biomass. With this, FrieslandCampina will be taking a new step towards climate-neutral growth.

Attention points in 2015

In recent years FrieslandCampina has invested heavily in capacity expansion and quality improvements. In 2015 this must lead to fewer disruptions in production and a better utilisation of capacity. In part due to this the client portfolio is being expanded especially in the added-value segment. Various new introductions are foreseen including with the galacto-oligosaccharide Domo Vivinal GOS 75 and the caseinate DMV Excellion EM 7 HVXL.

Expansion of milk processing and infant nutrition production capacity in Bedum (Netherlands)

The introduction of Vivinal Milk Fat, for an ideal combination of milk fat and lactic acid

Caffè latte, a combination of the new Kievit Creamer 2.0 and a foaming creamer

FrieslandCampina and its staff

In 2014 the average number of employees (FTEs) rose by 982 (4.6 percent) to 22,168 (2013: 21,186). Most of the increase was due to over 500 temporary workers in Indonesia being put on the payroll as a result of changes in legislation. The number of employees in Asia rose mainly due to the growth of activities in China. In the Netherlands the number of employees rose due to capacity expansion. The acquisition of Zijerveld and Den Hollander led to an average increase of 160 employees.

Employee survey 'over2You'

In September 2014 the second 'over2You' survey was carried out among all FrieslandCampina employees. The survey was completed by 87 percent of the 22,000 employees. The survey covered topics such as Safety & Social Involvement, Involvement in Sustainability, Line Management, Customers, Cooperation, Performance & Development, Strategy, Management Style and Change Capacity. FrieslandCampina's scores were higher than in 2012 in every area. In addition, FrieslandCampina's scores in 2014 were higher than the international Food & Beverages Industry norm.

'Boost' your energy!

FrieslandCampina employees in Leeuwarden and Amersfoort took part in the pilot of the 'Boost' vitality programme. The participating employees were guided through the different areas of exercise, diet and relaxation in different ways, such as personal discussions, workshops and monthly coaching in managing physical, mental and social-emotional energy. Attention was paid to planning the day, sleep, exercise, diet and coping with pressure.

Of the 350 participants:

- 71% said they could manage their energy better
- 79% said their priority setting improved
- 82% said their recovery after work was good or excellent
- 94% said they would recommend the programme to their colleagues

Talent management

To achieve the *route2020* goals, FrieslandCampina has continued to focus on the targeted development of its own employees and the recruitment of external top talent for management and specialist positions. The number of management positions to which internal candidates were appointed increased once again. In 2014 nearly 74 percent of all the people appointed to senior management positions already worked for FrieslandCampina. This is in line with the target.

FrieslandCampina strives to increase the percentage of women in senior management positions. In 2014 this percentage increased to 19 percent (2013: 14 percent). The aim is to achieve a more robust increase in the percentage of women in senior management positions in the coming years. In 2014 the number of expatriates deployed for a long period increased by 10 percent due to the entering of new markets, such as the Philippines and Brazil. More FrieslandCampina employees were deployed to work on short-term foreign projects.

In 2014 FrieslandCampina received the 'Gold Award for Excellence' from the European Foundation of Management Development for its talent and leadership development programme.

The Netherlands

At an industry branch level (Dutch Dairy Organisation NZO), in 2014 a new, two-year Collective Labour Agreement for the Dairy Industry was agreed. It includes agreements regarding amendments to the pension plans and a new assessment and salary structure for all employees covered by the Collective Labour Agreement for Higher Personnel in the Dairy Industry. For the employees covered by the Collective Labour Agreement for Private Cheese Warehouses, a new Collective Labour Agreement with a term of one year was agreed. In the Netherlands the changes to the pension plans were the key issue in 2014. At an industry branch level a new pension plan has been formulated. For this, agreement has been reached with the involved parties regarding making the Avéro depot premium-free, a new excedent plan has been developed and

Sustainable transport

The Milk Logistics department, which is responsible for the transportation of FrieslandCampina's milk, is aiming for climate-neutral growth. The goal: zero increase in greenhouse gas emissions despite the increased offering of raw milk. Various measures have been implemented to achieve this. Lighter milk tanker trucks, switching to cleaner fuels and, in some cases, even generating electricity via solar panels.

all 7,500 employees covered by the dairy pension plan have been informed of the changes.

The sustainable availability of employees is at the core of the Fit4Work2020 programme. In 2014 a number of core themes were formulated to stimulate the sustainable availability of employees. The Collective Labour Agreements for both the Dairy Industry and Private Cheese Warehouses include agreements to create better and more flexible work rosters in the interest of the employees' health. Customised solutions in the Collective Labour Agreement were also examined. This must lead to more options for choices fitted to the phase of life of employees. In 2014 specific attention was paid to development-oriented work assessment discussions, making work rosters more flexible, more opportunities for work placements, setting up an 'academy' in the Netherlands and a fitness programme. The sustainable availability of the current employees and the targeted recruitment of new employees will safeguard the quality and quantity of FrieslandCampina's workforce in the future.

Corporate Social Responsibility

Corporate Social Responsibility (CSR) and the safeguarding of sustainability in the Company's own dairy chain 'from grass to glass' play a fundamental role in the implementation of the *route2020* growth strategy. FrieslandCampina aims to create shared value with its activities, which means financial value for the over 19,000 Zuivelcoöperatie FrieslandCampina U.A. member dairy farmers combined with the achievement of added-value for customers, consumers, the Company's own employees and society as a whole. FrieslandCampina wants to contribute towards food and nutrient security for the fast-growing world population by providing safe and healthy dairy-based food and beverages to hundreds of millions of consumers in more than 100 countries every day. By investing in innovative and sustainable solutions, FrieslandCampina is reducing the environmental impact of its dairy farms, processing facilities and the transport/distribution of the dairy products even further. By supporting and sharing knowledge with tens of thousands of small farmers in Southeast Asia and Nigeria, FrieslandCampina is trying to increase the quality of the milk and the productivity of the dairy cattle and the farms and by so doing substantially increase the family income of the dairy farmer.

Nutrition & health

Within the 'Nutrition & health' cornerstone the global actions to reduce the sugar and salt content of FrieslandCampina's products are continuing. On the FAO's World Milk Day (1 June) FrieslandCampina signed a cooperation agreement with the Association of 150 collaborating food banks in the Netherland that, through the supply of dairy products, will ensure that more healthy nutrition will be included in the food parcels for 35,000 families. In Southeast Asia FrieslandCampina has entered into a partnership with the National Basketball Association (NBA) to make children aware of the importance of enough (outdoor) sport and exercise, good nutrition and a healthy lifestyle. The campaign, in cooperation with authorities and health professionals, has the title 'Drink.Move.Be Strong' and reaches 1.2 million children in nearly 1,500 schools in Indonesia, Malaysia, Thailand and Vietnam. A similar approach exists in the Netherlands with the broad-scale initiative 'Jongeren op Gezond Gewicht' (Young people at a healthy weight) in which FrieslandCampina, other companies and 75 municipalities are extending their cooperation with

CSR

Mission, vision and strategy

Nutrition & health	Efficient and sustainable production chains	Dairy development in Asia and Africa	Sustainable dairy farming
Combating nutrient deficiency	Improving resource utilisation	Helping small farmers in Asia and Africa	Setting the standard

CSR Governance Board - Four CSR implementation teams

CSR performance measurement - Annual reporting - Stakeholder dialogue - Partnerships

Employee & dairy farmer engagement - CSR training programmes - Annual CSR Team Award

Business practices for suppliers - Code of Conduct - *Foqus* quality system - Position papers

the Healthy Weight Covenant. The goal is to combat the problem of obesity among school children by means of education about healthy eating and healthy exercise. In 2014 FrieslandCampina, together with the Dutch Red Cross, its strategic partner for the Nutrition & health theme, implemented several new measures aimed at extending the cooperation in the Netherlands and in Indonesia, in cooperation with retail partner Hypermart and the local FrieslandCampina organisation. In three years FrieslandCampina, employees and dairy farmers have donated over 700,000 euro for emergency (nutrition) help for a reception centre for refugees and the victims of natural disasters.

Efficient and sustainable production chains

In the second cornerstone of FrieslandCampina's CSR programme, 'Efficient and sustainable production chains', the focus in 2014 was once again on energy and water efficiency, the prevention of waste and food wastage, CO_2 reduction, the production and use of sustainable energy and the purchase of sustainably produced agricultural raw materials. At the end of 2014 90 percent of the electricity used in FrieslandCampina's production facilities and offices in the Netherlands was green electricity, of which around 50 percent had been generated on member dairy farmers' farms (solar, wind and biomass). To supplement FrieslandCampina's first wind park (Van Gogh), more options for wind energy at production facilities in the Netherlands are being investigated. Accomplishing FrieslandCampina's promise of achieving climate-neutral growth will mean achieving a reduction of the emissions produced by its own chain amounting to 1,400 kTon of CO_2 equivalents by 2020. To achieve this target, more instruments must be installed both on the farms (energy efficiency, sustainable energy generation, extension of the life of cattle, the roll-out of the circular economy guide, the optimisation of cattle feed in order to reduce methane emissions from cows, the faster removal and processing of manure, etc.) and in the dairy production facilities (energy efficiency, more use of sustainable energy and sustainable transport, etc.). From April 2015 FrieslandCampina will utilise pyrolysis oil (oil from wood) at its Borculo production facility in the Netherlands and by so doing will not use 12 million m^3 of natural gas a year and will save 20,000 tons of CO_2 per year (equates to the annual natural gas usage of 8,000 households). The pyrolysis oil comes from Empyro

B.V., which has constructed a new factory for pyrolysis oil in Hengelo (Netherlands). In 2014 FrieslandCampina became a participant in the KLM's corporate biokerosene programme and by so doing has enabled its own employees to fly climate-neutral from Schiphol to Singapore and China.

In 2014 the prevention of food wastage was one of the European Union's key themes. FrieslandCampina also instigated campaigns in the Netherlands aimed at preventing food wastage, including through the signing of an agreement to supply to the central food banks each year more than one million consumer units of dairy products that would otherwise have been wasted because they reached the ultimate shelf-life date while still in the Company's own distribution centres. In addition, at a branch level FrieslandCampina has striven for the provision of better information to consumers, including via packaging and more varied portion sizes. Progress has been achieved with the purchase of sustainable agricultural raw materials – 100 percent of the cocoa now purchased is sustainable and certificated. For tropical fruit, FrieslandCampina Riedel (brands including Appelsientje and CoolBest) has started a cooperation with 'Solidaridad' for sustainable tropical fruit. In the packaging materials field the following step has been taken with an agreement with PEFC Nederland, the hallmark organisation for sustainable paper and timber, that FrieslandCampina worldwide will use sustainable packaging materials whenever possible. Since 2013 FrieslandCampina has only purchased cardboard outer packaging for the western European market that is PEFC or FSC certificated.

Developing dairy farming in Asia and Africa
With the opening of the Dutch Dairy Expertise Centre in Beijing in December 2014, a new milestone was reached in FrieslandCampina's third CSR programme component, 'Developing dairy farming in Asia and Africa'. The goal of the Dairy Expertise Centre, in which FrieslandCampina works closely with the China Agricultural University and Wageningen UR, is to contribute, with the help of Dutch expertise and skills, towards improvements in the field of food safety and the quality and productivity of the Chinese dairy chain. Via the Dairy Development Programme (DDP) tens of thousands of small farmers in Asia and Africa have been trained at model farms. FrieslandCampina has a partnership with Agriterra, an aid organisation for small farmers, for the provision of support services to the DDP. Agriterra in its turn utilises FrieslandCampina's, or the Cooperative's, expertise in the field of dairy farming, milk quality and farm management to provide advice, training etc. to organisations of small dairy farmers in emerging countries.

Sustainable dairy farming
The fourth component is 'Sustainable dairy farming'. In December 2014 the member dairy farmers agreed the implementation of a new phase of the *Foqus planet* quality and sustainability programme for dairy farming in the Netherlands. With *Foqus planet* FrieslandCampina wants to contribute towards the achievement of the sector targets for 2020. In 2015 FrieslandCampina started with six indicators in the field of animal health & welfare, biodiversity & the environment, and climate & energy for which the results are measurable and it will be the results rather than the efforts that are rewarded. Points will be awarded for the result per indicator and these points will add up to a total score. The amount of the premium will depend on the total quantity of milk supplied and the total number of points achieved. The premium will be financed through a pro forma retention of 0.25 euro per 100 kilos of milk supplied. A performance-based sustainability premium has been implemented including a tightening of the basis demands and a payment for sustainability performance. The meadow milk premium has been increased from from 0.50 euro to 1.00 euro gross per 100 kilos of milk. For this purpose a general withholding of 0.35 euro per 100 kilos of milk is applicable to all member dairy farmers. Using the Kringloopwijzer (Dairy Sustainability Loop), a tool that shows dairy farmers the mineral usage loop on their farm and creates possibilities to optimise the business processes

Dairy and 'Hidden Hunger' in a fast-changing world
The worldwide need for more food is threatened by a shortage of land, water, energy and other natural resources and, on top of that, by the fact that the 'greying' and poverty of the farming community means there are less farmers to produce the food for the world's rapidly increasing population. Milk is a natural source of nutrients such as proteins, vitamins (including B2 and B12) and minerals (including calcium) and forms the basis of a wide range of dairy products. This nutritional importance was once again shown very clearly in November 2014 during an international congress on Healthy Eating organised in Rome by the World Health Organisation (WHO) and the United Nations' Food and Agriculture Organisation (FAO). In the Rome declaration on Essential Nutrients the 170 participating countries agreed to combat undernourishment in the world – including hunger, vitamin and mineral deficiency, and obesity.

on the farm and reduce emissions, is now obligatory for all dairy farms with a manure (phosphate) surplus. These sustainability activities and the results at the dairy farms and in the processing of the milk at the production facilities mean FrieslandCampina is able to comply with the more stringent sustainability demands being stipulated by many industrial and retail clients. In this way FrieslandCampina with its 'from grass to glass' production chain is constructing the business case for sustainability in the interest of clients, consumers, society and the environment.

2014 CSR Report

More information about FrieslandCampina's CSR policy, including the Company's results for 2014, is to be found in the 2014 CSR Report published in May 2015.

Risk management

The achievement of business objectives goes hand-in-hand with risks and uncertainties, including due to external economic factors, market developments, calamities and internal factors. FrieslandCampina applies general measures to manage these risks and, depending on the type of risk, additional specific measures.

General measures

FrieslandCampina applies diverse methods and processes in order to manage the various risks as effectively as possible including:

- Strategic and operational risks are listed and the likelihood of these risks and the effect they could have on the achievement of the Company's goals are assessed systematically by all the operating companies and business groups and the Executive Board by means of Enterprise Risk Assessments. Measures have been taken to improve the management of these risks.
- Financial (reporting) risks are managed in several ways including through the application of the Internal Control Framework (ICF) that is based on the internationally recognised COSO framework (COSO 1992). The ICF comprises prescribed control measures that are evaluated by means of regular internal assessments including risk analysis and, if shortcomings are found, improvement measures.
- FrieslandCampina's Code of Conduct plays an important role in the management of compliance risks. This Code specifies the principles regarding the standard of conduct expected of all employees, including compliance with applicable legislation and regulations. The Company has a Whistle-blower's regulation. Employees who suspect deviations from the conduct standards are taking place can report this via this regulation.

Principal operational risks

In addition to the general management measures described above there are also specific measures for the operational risks. The five principal risks for the Company (according to the Enterprise Risk Assessment 2014) are described below on the basis of their likelihood and effect on the achievement of the Company's goals.

Product quality and food safety

In view of the nature of the end products (food and ingredients for, among others, the food and pharmaceutical industries), it goes without saying that FrieslandCampina stipulates high standards for food quality and food safety. A quality problem, or even a change in the quality perception of consumers or governments, could have enormous consequences for the Company's reputation and market position. Clients and governments are making increasingly stringent quality demands of food manufacturers.

FrieslandCampina and Dutch Food Banks intensify partnership

On Monday 2 June 2014 FrieslandCampina and the Association of Dutch Food Banks (Vereniging van Nederlandse Voedselbanken) announced they were intensifying their partnership. The goal of the partnership is to provide people below the poverty line with dairy products. As a partner of Voedselbanken Nederland, FrieslandCampina covers the logistics costs, which makes a better distribution of the dairy products to all the food banks in the Netherlands possible.

FrieslandCampina's quality programmes (including *Foqus* in its own production companies and in dairy farming, quality safeguarding at suppliers' premises and audits) have been reviewed and tightened throughout the organisation and investments aimed at improving the quality of the production processes have been implemented.

Geopolitical and economic developments
A significant portion of the growth in revenue and results that FrieslandCampina achieves is generated in emerging (dairy) markets, including countries in Asia and Africa. This may change the Company's risk profile. Any decline in economic growth, the devaluation of the local currency and loss of consumer trust in emerging countries could have a significant impact on revenue and result development. A strong US dollar and/or euro compared with several Asian currencies and the Nigerian naira could have an adverse influence on the result and equity. Such risks are followed closely and FrieslandCampina anticipates them at the earliest possible moment by means of scenarios including adjustments to the sales price policy, the composition of the product range and sales promotions and a more stringent policy in respect of the hedging of foreign currency positions. Transaction risks are, in principle, hedged but this way be waived because of specific product and market conditions. Currency risks arising from investments in foreign subsidiaries and interests are not, in principle, hedged.

In addition to economic developments, (sudden) changes, for example in import regulations, could have major consequences for FrieslandCampina's business operations. The boycott on the import of dairy products announced by Russia is an example of this.

In its most important markets FrieslandCampina has strengthened its expertise and capacity in the field of legislation, regulations and governmental relations.

The milk supply and the demand for dairy products
As of 1 April 2015 the EU's milk quota will no longer be applicable. As a result, the supply of raw milk is likely to increase further. FrieslandCampina has prepared for this increase by investing in expanding its milk processing capacity. The risk remains that this will drive down the sales prices of generic dairy products. The forecast is that the supply of milk and other dairy raw materials will become even more volatile. This once again underlines the importance of the *route2020* strategy's focus on increasing the share of dairy products with added-value in the portfolio and achieving further growth of these products in emerging markets. Extra attention will be paid to ways to improve the predictability of the milk supply and dairy product prices so that FrieslandCampina can anticipate and respond to these trends.

Reputation risk
FrieslandCampina's reputation could be severely damaged in the case of, for example, a quality problem, a change in consumers' quality perception, or an animal disease that affects the dairy sector. The potential impact of such an incident is becoming greater and greater due to the far-reaching expansion of the use of social media. It goes without saying that the Company strives to limit these risks as far as possible. FrieslandCampina follows an active policy to reinforce stakeholders' trust in the dairy sector in general and the Company in particular, including through initiatives in the field of sustainability and the optimum use of communications (tools).

Brand positions
FrieslandCampina's market shares are under pressure in several markets, for example because of the economic conditions, the increasing demand for private label products and, in some countries, consolidation and fiercer competition. FrieslandCampina strives to strengthen the positions of its brands through account management, targeted strategies per product category, innovative products and packaging, price positioning, advertising, promotions and ensuring its products are clearly visible in the shops.

Outlook

At a global level the supply of raw milk and the demand for dairy products form a precarious balance. After more than 30 years the milk quota for dairy farmers in the European Union will expire on 1 April 2015. Worldwide the volume of milk supplied over the whole of 2015 is expected to be 2 to 4 percent more than in 2014.

It is anticipated that in 2015 the demand for dairy products will increase slightly. The expectation is that in Asia and Africa it will be mainly the growing middle class that profits from economic recovery. As a result of the lower price level of dairy products it is possible that consumers in emerging markets will also once again be able to afford more dairy products. The relatively cheap euro will mean that dairy products from the euro zone will be better able to compete against other suppliers from countries with different currencies, so more dairy products can be exported. China's need for dairy products and raw materials is difficult to estimate. Whether, or when, the Russian boycott of western agricultural products will be lifted is equally unpredictable. But even if the boycott is lifted, demand in Russia is not expected to recover quickly. Consumers in Europe will remain price-conscious and, in part as a result of this, the competition from other suppliers and private labels will continue increasing.

In 2015 FrieslandCampina anticipates volume growth from infant nutrition in Asia and Africa and also expects it will once again be able to achieve volume growth with ingredients and dairy-based beverages. The recovery of the growth of dairy-based beverages will take place primarily outside of Europe. Expenditure on advertising and promotion will increase to support this growth and strengthen the brand positions and market shares. Expenditure for research & development will increase slightly. Investments are expected to total around 600 million euro.

FrieslandCampina's financial base is solid and offers a good foundation for achieving the Company's plans in the context of the *route2020* strategy. It is expected that in 2015 FrieslandCampina will have ample means to meet its financial needs.

In the area of human resources there will be a continued need for well-trained talent and employee mobility in order to maintain the desired high quality of the workforce. Increasing efficiency, organisational adjustments, activity expansion and possible acquisitions could all lead to changes in the workforce.

In view of the uncertainties mentioned FrieslandCampina is not making any concrete predictions regarding the expected results for 2015.

Taking a longer-term view the outlook remains positive. As the world's population grows and welfare increases in many regions the demand for food, and in particular food rich in nutrients including dairy products, will continue rising.

Vivinal GOS Powder

The Ingredients business group has developed a new technology that enables purer GOS (galacto-oligosaccharides) to be produced. GOS contains many dietary fibres and are used worldwide in infant nutrition. Due to the new technology the amount of small sugars (mono-saccharides) in the product is reduced. The result is a concentrated powder with a higher GOS content (from 59 to 70 percent). This leads to improved product functionality.

Thanks

The Executive Board thanks FrieslandCampina's employees for their dedication and efforts during the past year.

Management statement

The Executive Board is ultimately responsible for the management of the risks that are coupled with the Company's objectives and the reliability of the internal and external (financial) reporting. The Executive Board is also responsible for evaluating the effectiveness of these risk management measures. By means of the measures described above the Executive Board has fulfilled its responsibilities in the year under review.

The Executive Board has evaluated the internal management and control measures. On the basis of this evaluation the Executive Board is of the opinion that at the end of the 2014 financial year the internal management and control measures were functioning sufficiently effectively to provide a reasonable degree of assurance that:

- The Executive Board will be informed, in good time, of the degree to which the Company's strategic, operational and financial objectives are being achieved;
- The internal and external (financial) reporting does not contain any material misstatement.

All the procedures relating to the internal risk management and control systems and the resulting findings, recommendations and measures have been discussed with the Audit Committee, the Supervisory Board and the external auditor.

Responsibility statement

The members of the Executive Board of Royal FrieslandCampina N.V. hereby declare, in conformance with Article 5:25c, Clause 2 under c of the Financial Supervision Act, that to the best of their knowledge the financial statements give a true and fair view of the assets, liabilities, financial position and profit of Royal FrieslandCampina N.V. and the companies included in the consolidation. The Executive Board also declares that the annual report gives a true and fair view of the situation as at 31 December 2014 and the business development during the financial year of Royal FrieslandCampina N.V. and the associated companies for which the financial information is recognised in its financial statements. The annual report also describes the material risks with which Royal FrieslandCampina N.V. is confronted.

Executive Board

Cees (C.C.) 't Hart
Chief Executive Officer

Hein (H.M.A.) Schumacher
Chief Financial Officer

Kees (C.J.M.) Gielen
Chief Operating Officer

Piet (P.J.) Hilarides
Chief Operating Officer

Roelof (R.A.) Joosten
Chief Operating Officer

Gregory (G.) Sklikas
Chief Operating Officer

Amersfoort, the Netherlands, 27 February 2015

Making dairy farming more sustainable

Making dairy farming more sustainable reflects market and social developments. More and more often purchasers of dairy products are selecting their suppliers on the basis of performance in the fields of quality, transparency, sustainability and meadow grazing of the dairy cows. This demands professionalism and enterprise from the dairy farmers. The updated *Foqus planet* quality and sustainability programme, in which continuous improvement and the rewarding of results are priorities, anticipates these developments.

Corporate governance

Basic principles

Royal FrieslandCampina N.V. (the 'Company') voluntarily applies the principles of the Dutch Corporate Governance Code (the 'Code'). The manner in which these principles are applied is described in this section. The principles of the Code the Company does not apply, and the reason why not, are also included. Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') is exempted from applying a structural regime. The Company is a statutory two-tier company. A covenant has been agreed with the Central Works Council (the 'CWC') on the grounds of which the members of the Company's Supervisory Board (the 'Supervisory Board') are appointed by the Supervisory Board, the so-called co-optation system.

Shareholders structure

All the shares in the Company's capital are held by the Cooperative, the members of which are involved in dairy farming. The Cooperative's geographical area of operations is divided into 21 districts, each of which has a District Board. The Cooperatives members appoint the Boards of the 21 districts. Together the 210 members of the District Boards form the Cooperative's Member Council. The Member Council appoints the nine members of the Cooperative's Board on the recommendation of the Chairmen's Meeting. The Cooperative is the sole shareholder of the Company. The Board of the Cooperative exercises the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the Company. There are a number of decisions regarding which, on the grounds of the Company's Articles of Association, the Company's directors (the 'Executive Board') must obtain the approval of the General Meeting of Shareholders. For a number of the decisions for which the Board of the Cooperative votes on behalf of the Cooperative, the Board of the Cooperative must obtain the approval of the Member Council before casting its vote. Such approval from the Member Council is also applicable for a number of other major decisions of the Company's General Meeting of Shareholders. The Cooperative's governance structure is described in the Cooperative's Annual Report.

Board structure

The Company has a so-called two-tier structure with an Executive Board and a Supervisory Board. The Executive Board comprises six members: a Chief Executive Officer (CEO), a Chief Financial Officer (CFO) and four Chief Operating Officers (COOs). Each COO is responsible for a specific part of the organisation, such as a business group or the management of the consumer product categories. The Executive Board's composition and division of tasks is explained on page 57.

The Supervisory Board comprises thirteen members; nine members of the Board of the Cooperative plus four 'external' members. The Supervisory Board's composition is described on pages 150-153.

Supervisory Board committees

The Supervisory Board has formed two committees: the Audit Committee, which comprises four Supervisory Board members, and the Appointment & Remuneration Committee, which comprises three Supervisory Board members. The composition of the Supervisory Board's Committees can be found on page 153.

Report of the Supervisory Board

The topics covered in the report of the Supervisory Board include the activities of the Supervisory Board and its Committees during the year under review. This report is included on pages 62-67.

Corporate governance

The Corporate Governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies, all of which are published on the Company's website. Although the Code is not applicable to the Company, because according to the law only stock exchange listed companies are governed by the Code, the Company applies the principles and best practices provisions of the Code that are compatible with its structure of authority and the nature of the Cooperative. The provisions that are not applied are specified in this overview along with the reasons why they are deemed inappropriate. During the year under review there were no structural changes to the governance structure.

Executive Board

Tasks and responsibilities

The Executive Board, which on the grounds of the Articles of Association comprises a minimum of two members, is charged with the management of the Company. This means that the Executive Board's responsibilities include the policy and business progress within the Company and with this the achievement of the goals, strategy, profit development and the social aspects of doing business that are relevant for the Company. The Executive Board is also responsible for compliance with legislation and regulations, management of the risks coupled with the company's activities and financing of the Company. The Executive Board discusses the internal risk management and control systems with the Supervisory Board and the Audit Committee.

In the performance of its duties the Executive Board is led by the interests of the Company and its subsidiaries and associates. The Executive Board is accountable to the Supervisory Board and the General Meeting of Shareholders for its policy.

Appointment

The members of the Executive Board are appointed by the Supervisory Board for an indefinite period. The basis for non-compliance with the recommendation of the Code (appointment for a maximum term of four years) rests in the principles of the management structure whereby the members of the Executive Board are appointed by the Supervisory Board. In addition, the Cooperative is oriented towards the long-term. The Supervisory Board notifies the General Meeting of Shareholders of an intended appointment and does not dismiss members of the Executive Board until after the General Meeting of Shareholders has expressed its opinion.

Remuneration of Executive Board members

All the relevant recommendations of the Code are applied in the remuneration policy. The remuneration policy is not made public because the Company is legally exempt from publication. The remuneration policy is proposed by the Supervisory Board and approved by the General Meeting of Shareholders and is accounted for every year in the meeting of the Cooperative's Member Council. Important changes in the remuneration policy are put before the General Meeting of Shareholders for approval. FrieslandCampina is accountable to the General Meeting of Shareholders and the Cooperative's Member Council.

Supervisory Board

The Supervisory Board supervises the policy of the Executive Board and the general business progress of the Company and its associated companies and advises the Executive Board. The Supervisory Board discusses with the Executive Board the strategy and main risks related to the Company's operations as well as the organisation and functioning of and any significant changes to the risk management and control systems.

The Supervisory Board also has the authorities specified in the provisions of Book 2 of the Dutch Civil Code in respect of companies with a two-tier management structure. These include, in particular, the appointment of the Executive Board members, the determination of the number of members of the Executive Board and the approval of a number of other decisions of the Executive Board as specified in legislation. The Supervisory Board also has the authority to approve certain decisions of the Executive Board as stipulated in the Articles of Association.

In the performance of its duties the members of the Supervisory Board are led by the interests of the Company and its associates and take into account the interests of all the Company's stakeholders and all the aspects of social responsibility relevant to the Company.

Composition, independence and appointment
A covenant has been signed with the Central Works Council (CWC) that includes agreements regarding the composition of the Supervisory Board, the required profile of the members of the Supervisory Board, the strengthened rights of the CWC in respect of the appointment of Supervisory Board members and the way in which the CWC exercises these rights. The profile sketch has been published on the Company's website as an appendix to the Supervisory Board Regulations. On the basis of the Covenant the Supervisory Board is composed properly if two-thirds of its members are members of the Board of the Cooperative (internal members) and one-third of its members are recruited from outside (external members).

The chosen composition reflects the two-thirds to one-third dominance of internal members in a Supervisory Board permitted by the law for large cooperatives. This dominance by internal members is carried through to the Company level.

This stipulation deviates from the Code's best practice provision which states that all Supervisory Board members, with the exception of a maximum of one member, must be independent. All the external Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board menber is a so-called financial expert, which means he or she has acquired relevant expertise and experience in the field of financial administration/ accounting with a large legal entity.

Membership of other Supervisory Boards and the holding of other position by both Supervisory Board members and Executive Board members is evaluated by the Supervisory Board on a case by case basis, taking into consideration the nature of the membership or position and the demands it would place on the time of the member concerned. Every member of the Supervisory Board and the Executive Board must ensure he or she devotes sufficient time and attention to the Company to guarantee his or her duties are fulfilled properly. None of the Supervisory Board members may hold more than five Supervisory Board memberships and/or other functions with Dutch stock exchange listed companies or other large companies and foundations, with a Chairmanship counting as double. For members of the Supervisory Board who were already members of the Board on 1 January 2013 this rule comes into effect at the time of their first reappointment after this date.

Supervisory Board members are appointed by the Supervisory Board for a term of four years and may be reappointed a maximum of twice. An exception to this is applicable for the incumbent Chairman who may be appointed for a fourth term in connection with the fact that the Company wants to be able to appoint a Supervisory Board member for this function who has a lot of experience of the day to day operations of the Company and the Cooperative.

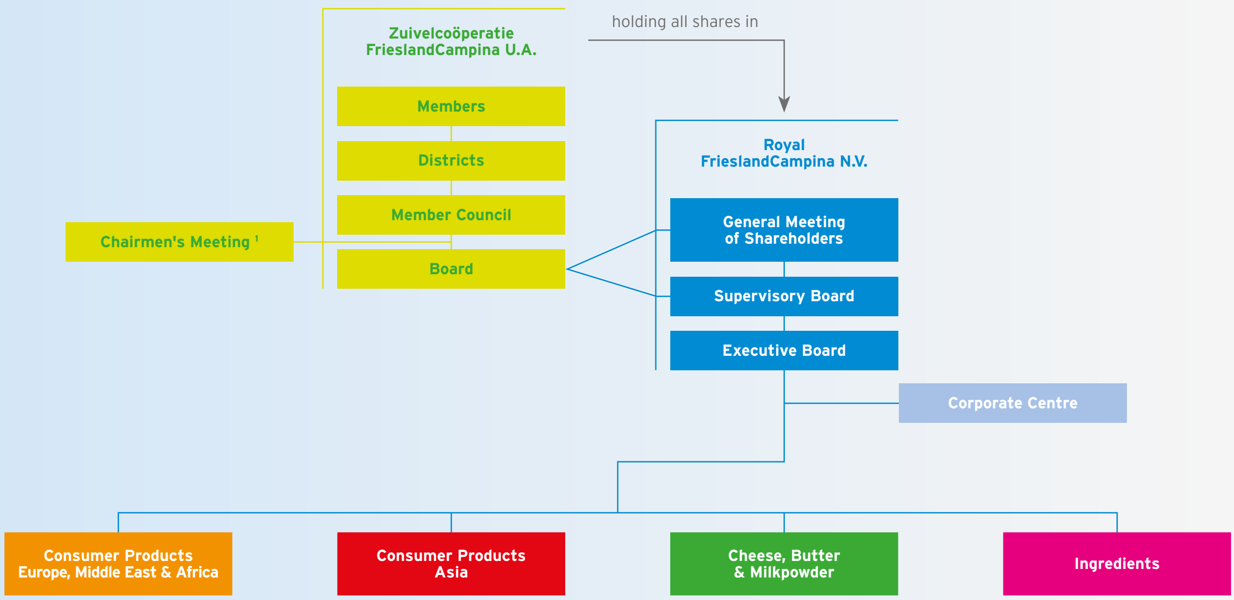
The term of office of a Supervisory Board member who is also a member of the Board of the Cooperative always ends upon the termination of the Board of the Cooperative membership. Information concerning the dates of (re) appointment and current terms of the Supervisory Board members can be found in the appointment and resignation roster on page 67.

Remuneration
The General Meeting of Shareholders fixes the remuneration of the Supervisory Board members on the recommendation of the Supervisory Board and is accountable to the Member Council for its decisions. The remuneration is not dependent on the Company's results.

Supervisory Board committees

The Supervisory Board has an Appointment & Remuneration Committee and an Audit Committee. The task of these Committees is to prepare the decision making of the Supervisory Board; they have no independent decision-making authority. The Regulations of the Committees are published on the Company's website. Both Committees report regularly to the Supervisory Board regarding their deliberations and findings.

Appointment & Remuneration Committee
The Appointment & Remuneration Committee comprises the Supervisory Board member with the 'social profile', who is also the Chairman of the Appointment & Remuneration Committee, plus the Supervisory Board's Chairman and Vice-chairman.



[1] The Chairmen of the 21 District Councils

The duties of the Appointment & Remuneration Committee include:

- proposals for the remuneration policy of the Executive Board and the individual Board members;
- compiling the remuneration report;
- selecting and appointing the members (including drawing up appointment criteria and procedures) of the Executive Board and the external Supervisory Board members;
- regular evaluation of the size and composition of the Supervisory Board, the Supervisory Board Committees and the Executive Board;
- regular evaluation of the functioning of the Executive Board, the Supervisory Board, the individual members of both these Boards and the Supervisory Board's committees;
- preparation of the decision-making regarding the Executive Board remuneration policy; and
- supervision of the Executive Board's remuneration policy, selection criteria and appointment procedures for members of the senior management.

Audit Committee

The Audit Committee comprises the financial expert and one other external Supervisory Board member plus two Supervisory Board members who are also members of the Board of the Cooperative.

The duties of the Audit Committee are of a preparatory nature and relate to:

- the accuracy and completeness of the financial reporting;
- compliance with recommendations from the Corporate Internal Audit department and the external auditor;
- the reliability and continuity of ICT systems;
- the internal administrative organisation;
- the functioning of the internal risk management and control systems;
- compliance with legislation and regulations and the policy in respect of tax planning;
- financing and application of information and communication technology;
- the role and functioning of the internal auditor; and
- the appointment of and relationship with the external auditor (including the auditor's independence, remuneration and non-audit-related tasks).

The Audit Committee is the first contact point for the external auditor should the audit reveal irregularities in the Company's financial reporting.

Conflict of interests

FrieslandCampina has drawn up strict rules to prevent every form and appearance of a conflict of interest between the Company on the one hand and the Executive Board and Supervisory Board members on the other hand. Decisions to enter into transactions involving conflicting interests of Executive Board or Supervisory Board members of a material significance for the Company and/or for the relevant individual must, in accordance with these rules, be approved by the Supervisory Board. During the year under review no conflicts of interests were reported.

The General Meeting of Shareholders

The Company's General Meeting of Shareholders has the authority to approve certain Executive Board decisions. These decisions, which are stipulated in the Articles of Association, are major decisions relating to the operations, legal structure and financial structure of the Company (and the companies in which it holds shares) as well as decisions related to major investments.

The most important other authorities of the General Meeting of Shareholders are:

- adoption of the Company's financial statements and profit appropriation;
- discharging the members of the Executive Board for their management and the members of the Supervisory Board for their supervision of the Executive Board;
- adoption of the dividend;
- adoption of the remuneration policy for the Executive Board and the remuneration of the Supervisory Board members;
- appointment and dismissal of the external auditor;
- amendments to the Articles of Association; and
- issuing of shares, exclusion of the application right, authorisation to repurchase the Company's own shares, reduction of the paid up capital, dissolution and application for bankruptcy.

During the Company's General Meeting of Shareholders the Board of the Cooperative exercises its voting rights on behalf of the Cooperative. In respect of a number of major shareholders' decisions, stipulated in the Cooperative's Articles of Association, the Board exercises its voting rights with the prior approval of the Cooperative's Member Council.

The Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company registered in Amersfoort, the Netherlands and with its central office at Stationsplein 4, Amersfoort. The Company's Articles of Association were last amended on 14 January 2015 and are published on the Company's website. This amendment to the Articles of Association included the implementation of changes to the law. The Company is registered with the Chamber of Commerce under number 11057544. On 31 December 2014 the Company's authorised capital amounted to 1,000,000,000 euro divided into 10,000,000 (ten million) shares with a nominal value of 100 euro. The shares are registered. On the same day 3,702,777 shares were issued and paid up and all are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, application rights, acquisition of own shares and capital reduction, please refer to the Company's Articles of Association.

Audit of the financial reporting and the roles of the internal and external auditors

Financial reporting

The Executive Board is responsible for the quality and completeness of the published financial announcements. The Supervisory Board ensures that the Executive Board fulfils this responsibility.

External auditor

The external auditor is appointed by the General Meeting of Shareholders on the recommendation of the Supervisory Board. The Supervisory Board is advised by both the Audit Committee and the Executive Board. The remuneration of the external auditor and orders to the external accountant to carry out tasks not related to the audit are approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board. The external auditor is present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor's findings regarding the audit of the financial statements are reported to the Executive Board and Supervisory Board at the same time.

Internal audit function

The functioning of the internal auditor is the responsibility of the Executive Board. Both the Audit Committee and the external auditor are involved in the plan of work of the internal auditor and are notified of his/her findings. The internal auditor has regular consultations with the external auditor and the Chairman of the Audit Committee.

Best practice provisions of the Code not applied by FrieslandCampina:

The Company fully endorses the Code by applying the principles and best practice provisions or by explaining why the Company deviates from the Code. The principles listed below are not applied for the reason indicated in the foregoing or following text:

II.1.1	Appointment of a member of the Executive Board for a period of a maximum of four years: see motivation under 'Executive Board – Appointment'.
II.1.9-11 and IV	Response time to shareholders, Supervisory Board notification in the case of an acquisition bid; principles in respect of the (General Meeting of) Shareholders and information provision/logistics regarding the General meeting: not applicable due to the fact that the Company is not stock exchange listed and all the shares in its capital are held by the Cooperative.
II 2.12-15	Publishing remuneration report, most important components of employment conditions or severance payment of Executive Board member: the Company utilises the statutory exception as understood in Art. 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.
III.2.1	All Supervisory Board members, with the exception of a maximum of one, are independent: see motivation under 'Supervisory Board – Composition, independence and appointment'.
III.3.5	A Supervisory Board member may only be a member of the Supervisory Board member for a maximum of three terms of four years: see motivation under 'Supervisory Board – Composition, independence and appointment'.
III.5	The Remuneration Committee and the Selection & Appointment Committee have, for practical reasons, been combined into the Appointment & Remuneration Committee.

Supervisory Board activities

The Supervisory Board met formally seven times during the year under review and there was also contact with members of the Executive Board on a number of other occasions.

Throughout the year the Mergers & Acquisition strategy was discussed and the Management reported the progress of various acquisition projects. Several projects were submitted to the Supervisory Board for approval. The cooperation with China Huishan Dairy Holdings in China, which is aimed at achieving a fully integrated infant nutrition production chain, was discussed in considerable detail. After a visit to Huishan, during which the members realised the potential of this investment for FrieslandCampina's ambitions in China, this cooperation was approved by the Board in September. With this cooperation, which can commence during 2015 after it is approved by the Chinese competition authorities, the new FrieslandHuishan Dairy joint venture will be able to introduce a new brand of infant nutrition on the Chinese market. The infant nutrition will be produced in China using Huishan Dairy's high-quality production chain and FrieslandCampina's international expertise and experience in the field of production and marketing.

At the end of November Jan Uijttewaal, Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V. and Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A., died. Jan had a warm personality and was an extremely involved member of the Board. His evaluations in decisions in the Supervisory Board and the Cooperative's Board were always based on his business acumen and always from the perspective of the importance of the continuity of both the Cooperative and the Company. The interests of the members were a priority.
We will miss his insight.

The Management also informed the Supervisory Board of the progress of the *route2020* strategy. Considerable attention was paid to the innovation portfolio, the milk supply, the progress in processing capacity and the valorisation of milk. Several investment projects were presented for approval, the progress of other projects was discussed and in some cases the entire project was evaluated after several years.

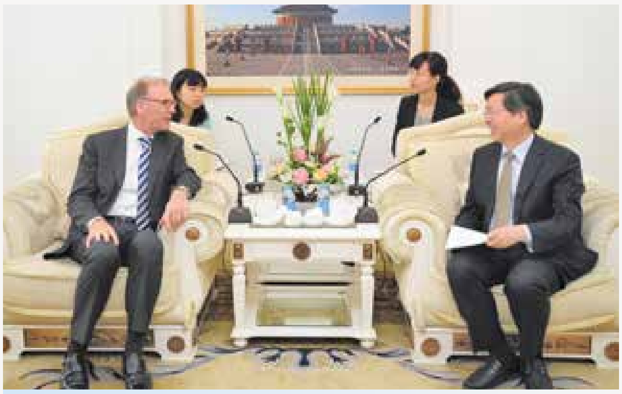
The analysis of risks and measures to mitigate risks were discussed and the improved approach to crisis management was explained. The results of the safety policy were reported during every meeting. The year was characterised by several exceptional events, including the extensive fire in Gerkesklooster in July which destroyed the warehouse and part of the brining room. The Supervisory Board was informed about the consequences of the fire and the approach being taken to restore production as soon as possible and limit the damage. The proposal for rebuilding the cheese warehouse and brining room was approved in October. The Supervisory Board also discussed the Russian boycott of dairy products and, in particular, measures to limit the consequences for the Company as far as possible. The measures taken after the outbreak of the Ebola epidemic were also discussed. The decision to transfer most of the Sleidinge production facility's activities to the production facility in Aalter, both in Belgium, and to close the facility in Sleidinge in 2015, with as a consequence the loss of 134 permanent employees, was presented to and approved by the Supervisory Board.

The Company's results were reported by the Management each quarter and discussed by the Supervisory Board, as were the findings of the Audit Committee. In February the financial statements for 2013 and the text of the annual report were discussed with the Executive Board and the external auditor and approved by the Supervisory Board. The management letter from the external auditor, like the auditor's report on his findings regarding the first half of the year, were explained by the auditor and discussed with the Management, as was the Management's following-up of the indicated areas for improvement. The Supervisory Board, like the Cooperative's member Council, approved the proposal to appoint PricewaterhouseCoopers N.V. as the external auditor as of the 2016 financial year. An analysis of the development of the overhead expenses was also discussed. A proposal to change the credit facility was approved. This refinancing enabled FrieslandCampina to improve its conditions quite considerably.

During the year the necessary attention was paid to pensions, including the establishment of an industry branch pension for employees in the Netherlands. An amendment to the pension accrual of Dutch employees resulted in a one-time income of 131 million euro.

In September the Supervisory Board visited FrieslandCampina's companies in Hong Kong and the Philippines. In October the Board visited Zijerveld in Bodegraven. At all the facilities attention was paid to the results and strategic plans of the companies concerned.

Topics such as remuneration, the composition of the Company's various bodies, diversity and succession planning were discussed, when appropriate in the absence of the Executive Board members. Initiatives related to management development were also discussed. In December the Management presented the results of the 'over2You' employee survey; the outcome showed not only a high level of participation but also predominantly good scores, including a high score for sustainable engagement. Attention points were identified and actioned per department.



The Dutch dairy sector and China strengthen relations
On Wednesday 11 June Cees 't Hart, Chairman of the Dutch Dairy Organisation (NZO) and CEO of Royal FrieslandCampina, met the Vice-minister of the Chinese Administration of Quality Supervision, Inspection and Quarantine (AQSIQ), Mr. Wu Qinghai. The objective of the meeting was the further strengthening of relations with the Chinese authorities. In addition, in view of the wish for "the growth of the export of Dutch dairy to China" expressed by Chinese President Xi Jinping during his visit to the Netherlands in March 2014, the next steps to be taken were discussed.

Supervisory Board Committees

The Supervisory Board has formed two committees, the Audit Committee and the Remuneration & Selection Committee, to advise them and prepare their decisions in respect of specific tasks.

Audit Committee

The annual report and the financial statements for 2013 were discussed in depth, as was the report of the external auditor regarding the financial statements and the declaration of the Executive Board included in the annual report.

The tasks of the external auditor, the selection of the entities involved in the audit and the audit material to be handled were discussed on the basis of the audit plan approved by the Audit Committee. The application as of 2014 of the Company-specific external auditor's report was discussed with the auditor. The 2014 half-yearly report and the external auditor's findings regarding the half-yearly report and interim audit findings were also discussed in depth. The main topics discussed during the year were the findings of the external auditor in respect of the annual impairment test carried out by the Company, the changes to the Dutch pension plans and the effect this would have on the financial statements and the (measurement of) the Companies taxation position in the various jurisdictions.

The list of additional tasks assigned to the external auditor was evaluated by the Audit Committee four times during the year under review and the Audit Committee's opinion was that the independence of the auditor was also safeguarded. The selection procedure for a new external auditor was paid the necessary attention and a tender process was carried out. An extensive selection procedure for a new external auditor, in which three external accountancy companies were invited to participate, took place under the leadership of the Audit Committee in cooperation with the Management. The proposal to charge PWC with auditing the financial statements of Royal FrieslandCampina as of the 2016 financial year was approved by the Cooperative's Members' Council in August 2014.

During meetings of the Audit Committee a number of managers (internal audit, enterprise risk management, treasury, ICT, tax) reported to the Audit Committee regarding their activities. The tax risks in the different countries were discussed and attention paid to topics such as transfer pricing and VAT. Enterprise risk management reported on the internal control framework and the analysis of the division of tasks. Special attention was paid to the treasury function and the treasury policy was up-dated. The Audit Committee was also informed about the approach to process improvement in the finance function.

In the ICT field the progress of the Summit project was discussed twice; attention was paid to several aspects including risk management and the progress with regard to process standardisation. An overview of material claims was discussed.

The Audit Committee considered at length the developments in the field of pensions and the effects of these developments on the Company.

During the year under review the Audit Committee met four times in the presence of the Management and the external auditor. In addition to these meetings the members of the Audit Committee were in contact with each other and with the management on various occasions. After every meeting the findings of the Audit Committee were reported to the Supervisory Board by the Committee's Chairman. The Chairman of the Audit Committee also had several separate discussions with the external auditor.

In February 2015 the annual report and financial statements for 2014 were discussed, as was the external Auditor's report regarding the financial statements and the Executive Board's responsibility statement as included in the annual report.

Remuneration & Selection Committee

In connection with the vacancies for both an internal and an external Supervisory Board member, during the year under view the Remuneration & Selection Committee paid considerable attention to the composition of the Supervisory Board and the Audit Committee. The changes in the composition of the Executive Board were also discussed. In this context discussions were also held with the candidates for the vacant functions.

The Committee also made preparations for the evaluation of the Executive Board and the Supervisory Board. During the year under review evaluation discussions were held with the members of the Executive Board and reported in the Supervisory Board meetings. Evaluation discussions were also held with the members of the Supervisory Board regarding their functioning and the functioning of the Supervisory Board and its Committees. The outcome of these discussions were reported to and discussed with the Supervisory Board. Both the functioning of the Board and the cooperation with the Executive Board were deemed to be excellent. Attention points will be followed up; these points relate to topics to be discussed during subsequent meetings and the need for a further deepening of the knowledge of one or more members in respect of areas of relevance to the Company. Considerable attention was paid to the talent and leadership development programmes within the Company and the Committee was informed about a transition programme that has been set up to ensure good management of the succession of various Managing Directors.

During the year under review the Remuneration & Selection Committee's activities included the remuneration of the Executive Board. Items discussed included issues such as the determination of bonuses and the fixing of targets for the short and long-term bonuses for the coming year or three years respectively. The twice-yearly report in which the remuneration of the Executive Board is compared with a reference group of companies was submitted to the Supervisory Board with recommendations for adjustments. These adjustments were accepted by the Supervisory Board and will be shared with the Member Council in April 2015. Attention was also paid to the changes to the pension plans for Dutch employees and, therefore, also for the

Open Farm Days in the Netherlands, Germany and Belgium

72 farms participated in the 2014 Open Farm Days – nearly twice as many as in 2013. Some of the around 100,000 visitors even visited several farms. In addition to a tour of the farm the visitors could enjoy other activities including a real 'farmer's assault course', a treasure hunt, tasting at the dairy bar and cow-pat football.

Dutch members of the Executive Board, in connection with a change in legislation.
The Remuneration & Selection Committee met four times during the year under review and after each meeting reported to the Supervisory Board. There was also contact between the members of the Committee and with the Management at other times.

Composition of the Supervisory Board, Committees and Executive Board

The composition of the Supervisory Board and its Committees as at 27 February 2015 is stated on pages 150-153.

Supervisory Board

During the year under review the composition of the Supervisory Board changed. The term of office of Jan Uijttewaal, which was due to end on 16 December 2014, came to a premature end due to his death on 30 November 2014. Jan Uijttewaal had been a member of the Cooperative's Board and the Supervisory Board of FrieslandCampina since the merger of Friesland Foods and Campina and since 2011 had been the Vice-chairman of both Boards. Before the merger he had been a member of the Board of Zuivelcoöperatie Campina U.A. since 2003. He will be missed as a valued colleague and person by the Supervisory Board and many others within FrieslandCampina.

Jan Keijsers has succeeded Jan Uijttewaal as Vice-chairman of the Supervisory Board and the Board of the Cooperative.

On 16 December 2014 Angelique Huijben-Pijnenburg and Frans Keurentjes were reappointed as members of the Supervisory Board and Sandra Addink-Berendsen was appointed as a member, all for terms of four years. The term of Henk Scheffers ended on 16 December 2014, but he was not available for reappointment. Henk Scheffers was also the Chairman of the Audit Committee for many years and his leadership was always excellent.

As of 1 May 2015 René Hooft Graafland will be appointed as the successor of Henk Scheffers in the Supervisory Board. René Hooft Graafland qualifies as a 'financial expert' in the sense of the Supervisory Board regulations.

The Supervisory Board is very grateful to Jan Uijttewaal and Henk Scheffers for their valuable advice and contributions towards the Board's discussions.
FrieslandCampina's Supervisory Board currently comprises twelve members and as of 1 May 2015 will once again comprise thirteen members. Nine of the members are members of the Board of Zuivelcoöperatie FrieslandCampina U.A. and the remaining members are external Supervisory Board members. All the external members of the Board (the members who are not also members of the Board of the Cooperative) are independent of the Company as stipulated in the Dutch Corporate Governance Code and the Supervisory Board Regulations.

Diversity of the Supervisory Board

FrieslandCampina strives for a composition of its Supervisory Board that is balanced and in which the combination of the members' experience, expertise and independence ensures the Supervisory Board can fulfil its various duties on behalf of the Company and its stakeholders in the best possible way. FrieslandCampina also strives for a balanced participation of men and women in the Supervisory Board with at least 30 percent of the members being female.

The Supervisory Board comprises thirteen members (as stated above, temporarily twelve members), two of whom are female. This means that the representation of the Cooperative's female members (15 percent) is guaranteed. In 2014 one female Supervisory Board member was reappointed and one female Board member and one male Board member (as of 1 May 2015) appointed. The goal of a balanced participation of women and men was taken into consideration in respect of the reappointment and appointment of these members. The next time a vacancy arises the search criteria specified by the Remuneration & Selection Committee will once again emphasise that the candidates should be female.

Committees

The composition of the Remuneration & Selection Committee changed during the year under review due to the death of Jan Uijttewaal, which resulted in the acceleration of his succession by Jan Keijsers.

Audit Committee
Henk Scheffers and his successor as of 1 May 2015, René Hooft Graafland, as well as Ben van der Veer, all qualify as a 'financial expert' in the sense of the Supervisory Board Regulations. During the year under review Henk Scheffers was the Chairman of the Audit Committee until his resignation on 16 December 2014. On that date he was succeeded as Chairman by Ben van der Veer. The Audit Committee also includes two internal Supervisory Board members and other internal Board members attend the meetings of the Audit Committee as observers on a rota basis.

Executive Board
Since 1 January 2015 the Executive Board has comprised six members. In 2014 the composition and portfolio division of the Executive Board were amended (see page 154-155). Kees Gielen, until the end of 2014 Chief Financial Officer, was appointed Chief Operating Officer Business Development as of 1 January 2015. Hein Schumacher joined the Executive Board on 1 September 2014 and succeeded Kees Gielen as Chief Financial Officer on 1 January 2015. Bas van den Berg was appointed Executive Director of the Cheese, Butter & Milkpowder business group as of 1 January 2015. He reports to Cees 't Hart who has the formal responsibility for the business group within the Executive Board. Bas van den Berg succeeds Piet Hilarides, who was appointed Chief Operating Officer of the Consumer Products Asia business group as of 1 January 2015. Piet Hilarides succeeds Freek Rijna who left FrieslandCampina on 31 December 2014. Freek Rijna had been Chief Operating Officer since 2009, first of the Consumer Products Europe business group and then of Consumer Products Asia in Singapore. The Supervisory Board is grateful to Freek Rijna for his efforts on behalf of and management of these business groups during the important post-merger years.

Diversity of the Executive Board
FrieslandCampina strives for a balanced composition of the Executive Board including the balanced participation of men and women. This means that at least 30 percent of the Executive Board members should be women. Currently all the members of the Executive Board are men. Hein Schumacher was ultimately selected to fill the vacancy of CFO in view of his qualities and international experience. The search criteria specified by the Remuneration & Selection Committee for the following vacancies will emphasise that the candidates should be female. As, in general, the preference is to recruit internal candidates, it is important that sufficient female candidates are available in the ranks under the Executive Board. FrieslandCampina is implementing a diversity policy that is aimed at increasing the number of women in these levels in the organisation.

Financial statements and appropriation of profit
In February 2015 the Audit Committee discussed the 2014 financial statements drawn up by the Executive Board and notified the Supervisory Board of their findings. During the Supervisory Board meeting of 27 February 2015 the Supervisory Board members and the Executive Board members discussed and signed the financial statements. The financial statements were audited by KPMG Accountants N.V., which then issued an unqualified auditor's report. The financial statements will be submitted to the General Meeting of Shareholders for adoption on 1 May 2015.

From the profit of 303 million euro, 70 million euro is attributable to minority interests and 183 million euro has been added to retained earnings. The remaining profit will be appropriated as follows: 40 million euro will be reserved as interest payment for the holders of member bonds and 10 million euro will be reserved as interest payment for the loan from the Cooperative to the Company.

During the General Meeting of Shareholders it will be proposed that the members of the Executive Board be discharged for their management during the 2014 financial year and that the members of the Supervisory Board be discharged for their supervision of the Executive Board during 2014.

On 29 April 2015 the Member Council of Zuivelcoöperatie FrieslandCampina U.A. will be asked to approve the decision of the Cooperative's Board, which exercises the Cooperative's rights as shareholder and in this way functions as the General Meeting of Shareholders, to adopt the 2014 financial statements of Royal FrieslandCampina N.V. and approve the appropriation of profit.

Thanks

The Supervisory Board is extremely thankful to Cees 't Hart for his efforts during the past seven years. After the merger at the end of 2008, Cees 't Hart's management of the integration of Friesland Foods and Campina was inspirational. Since then he has played a major and binding role in the successful expansion of FrieslandCampina. His integrity, dedication and finely tuned instincts for organisational developments have made FrieslandCampina a company that is ready for the future.

Supervisory Board

Amersfoort, the Netherlands, 27 February 2015

Supervisory Board appointment and resignation roster (as at 17 December 2014)

	appointed	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
P. Boer	31 Dec 2008		‹				‹›				›		
J.W. Addink-Berendsen	16 Dec 2014				›				›				‹
P.A.F.W. Elverding	7 May 2008	›				‹				‹›			
S.H. Galema	14 Dec 2011	›				›				‹			
L.W. Gunning	14 Dec 2011	›				›				‹			
A.A.M Huijben-Pijnenburg	15 Dec 2010				›				‹				‹›
R. Hooft Graafland	1 May 2015				›				›				‹
J.P.C. Keijsers	26 April 2006	›		‹				‹›				›	
F.A.M. Keurentjes	31 Dec 2008				‹				‹›				›
S.R.F. Ruiter	26 April 2006		‹				‹›				›		
H. Stöcker	14 Dec 2011	›				›				‹			
B. van der Veer	1 Oct 2009			›				‹				‹›	
W.M. Wunnekink	16 Dec 2009			›				‹				‹›	

› resigns, eligible for reappointment

‹ resigns, not eligible for reappointment

‹› successor of current member resigns, eligible for reappointment

Sustainability and market

FrieslandCampina offers customers and consumers a wide range of products and packagings from which to choose. The realisation that food must be nutritionally relevant and delicious for people in every age group – from babies to pensioners – provides the guideline for all FrieslandCampina's product marketing and innovation. Cultural and taste differences are also taken into account. In addition to paying attention to the nutritional value of products, the reduction of their sugar, fat and salt content remains important. FrieslandCampina is also increasingly focusing on the purchase of sustainable (agricultural) raw materials and packaging.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Financial statements 2014

Royal FrieslandCampina N.V.

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Consolidated income statement

In millions of euros	Note	2014	2013 [1]
Revenue	(4)	11,348	11,281
Other operating income	(5)	65	23
Raw materials and consumables used	(6)	-7,820	-7,613
Employee benefit expenses	(7)	-898	-942
Depreciation of plant and equipment and amortisation of intangible assets	(11) (12)	-231	-213
Goodwill impairment	(12)		-200
Other operating expenses	(8)	-1,975	-2,023
Operating profit		**489**	313
Finance income	(9)	9	25
Finance costs	(9)	-57	-80
Share of profit of joint ventures and associates	(13)	13	8
Profit before tax		**454**	266
Income tax expense	(10)	-151	-109
Profit for the year		**303**	157
Profit attributable to:			
• holders of member bonds		40	34
• provider of Cooperative loan		10	
• holders of perpetual notes			4
• shareholder of the Company		183	41
• shareholder and other providers of capital of the Company		**233**	79
• non-controlling interests		70	78
Profit for the year		**303**	157

[1] See page 80 of the general notes to the consolidated financial statements for an explanation on restatement of compararable figures.

Consolidated statement of comprehensive income

In millions of euros		2014		2013
Profit for the year		**303**		157
Items that are or may be reclassified to the income statement:				
Effective portion of cash flow hedges, net of tax	-9		-6	
Currency translation differences, net of tax	54		-81	
Net change in fair value of available-for-sale financial assets, net of tax	-4		15	
Net other comprehensive income that is or may be reclassified to the income statement		**41**		-72
Items that will never be reclassified to the income statement:				
Remeasurement of obligations (assets) in connection with defined benefit plan, net of tax	-162		-34	
Net other comprehensive income that will never be reclassified to the income statement		**-162**		-34
Other comprehensive income, net of tax		**-121**		-106
Total comprehensive income for the year		**182**		51
Attributable to:				
• shareholder and other providers of capital of the Company		109		-17
• non-controlling interests		73		68

Consolidated statement of financial position

At 31 December, in millions of euros	Note	2014	2013 [1]
Assets			
Property, plant and equipment	(11)	2,589	2,183
Intangible assets	(12)	1,258	1,182
Deferred tax assets	(21)	364	320
Investment in joint ventures and associates	(13)	122	116
Employee benefits	(20)	5	6
Other financial assets	(15)	98	76
Non-current assets		**4,436**	3,883
Inventories	(16)	1,264	1,303
Trade and other receivables	(17)	1,320	1,335
Income tax receivable		25	18
Other financial assets	(14)	2	4
Cash and cash equivalents	(18)	622	560
Assets held for sale	(3)	7	9
Current assets		**3,240**	3,229
Total assets		**7,676**	7,112
Equity			
Issued capital		370	370
Share premium		114	114
Member bonds		1,300	1,195
Cooperative loan		296	290
Other reserves		-88	-123
Retained earnings		595	559
Equity attributable to shareholder of the Company and other providers of capital		**2,587**	2,405
Non-controlling interests		236	226
Total equity	(19)	**2,823**	2,631
Liabilities			
Employee benefits	(20)	663	630
Deferred tax liabilities	(21)	108	98
Provisions	(22)	6	24
Interest-bearing borrowings	(23)	1,341	835
Other financial liabilities	(24)	39	87
Non-current liabilities		**2,157**	1,674
Current borrowings	(25)	220	412
Trade and other payables	(26)	2,307	2,245
Income tax payable		119	118
Provisions	(22)	35	23
Other financial liabilities	(14)	15	9
Current liabilities		**2,696**	2,807
Total liabilities		**4,853**	4,481
Total equity and liabilities		**7,676**	7,112

[1] The comparable figures for 2013 have been restated as explained in the accounting policies (see page 81).

Consolidated statement of cash flows

In millions of euros	Note	2014	2014	2013	2013
Cash flows from operating activities					
Profit before tax			**454**		266
Adjustments for:					
• interest	(9)	32		31	
• depreciation of plant and equipment and amortisation of intangible assets		231		213	
• impairment of non-current assets		24		219	
• reversal of impairment of non-current assets		-1		-1	
• share of profit of joint ventures and associates	(13)	-13		-8	
• movement in contingent consideration and put-option		-13		3	
• revaluation result of derivatives		10		-2	
• issue of fixed member bonds		101		114	
• pension plan amendment		-131		-29	
• gain on disposals				-12	
• granted insurance compensation		-51			
Total adjustments			**189**		528
Movements in:					
• securities	(15)	-9		-14	
• inventories	(31)	69		-175	
• receivables	(31)	48		-74	
• liabilities	(31)	-3		226	
• employee benefits		-49		18	
• provisions	(22)	-6		-18	
Total movements			**50**		-37
Cash flows from operating activities			**693**		757
Dividends received			8		7
Income tax paid			-137		-134
Interest paid			-51		-60
Interest received			10		18
Insurance compensation received - operating activities			22		
Net cash from operating activities			**545**		588
Cash flows from investing activities					
Investments in property, plant and equipment and intangible assets		-629		-521	
Disposals of property, plant and equipment, intangible assets and assets held for sale		8		20	
Received repayments of loans provided	(15)	2		4	
Acquisitions, net of cash acquired	(2)	-28		-79	
Insurance compensation received – non-current assets		29			
Net cash used in investing activities			**-618**		-576
Cash flows from financing activities					
Investments in non-controlling interests				-4	
Dividends paid to non-controlling interests		-74		-87	
Interest payment to holders of perpetual notes				-9	
Repayment of perpetual notes				-125	
Interest payment to holders of member bonds		-28		-29	
Interest-bearing borrowings drawn		1,141		558	
Repayment of interest-bearing borrowings		-906		-451	
Payment to holder of put-option				-10	
Settlement of derivatives		-1		-11	
Net cash used in financing activities			**132**		-168
Net cash flow			**59**		-156
Cash and cash equivalents at 1 January [1]	(18)		510		700
Net cash flow			59		-156
Exchange gains/losses on cash and cash equivalents			37		-34
Cash and cash equivalents at 31 December [1]	(18)		**606**		510

[1] Cash and cash equivalents includes bank overdrafts (see Note 25) that are repayable on demand and form an integral part of FrieslandCampina's cash management.

Consolidated statement of changes in equity

In millions of euros											**2014**
	Issued capital	Share premium reserve	Member bonds	Coopera-tive loan	Fair value reserve	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity** [1]	Non-controlling interests	**Total**
At 1 January	370	114	1,195	290	15	-24	-114	559	**2,405**	226	**2,631**
Comprehensive income:											
• profit for the year			40	10				183	**233**	70	**303**
• other comprehensive income					-4	-9	48	-159	**-124**	3	**-121**
Total comprehensive income for the year			**40**	**10**	**-4**	**-9**	**48**	**24**	**109**	**73**	**182**
Transactions with shareholder and other providers of capital recognised directly in equity:											
• dividends paid to non-controlling interests										-63	**-63**
• interest payment to provider of Cooperative loan				-4				2	**-2**		**-2**
• interest payment to holders of member bonds			-36					8	**-28**		**-28**
• issue of fixed member bonds			101						**101**		**101**
• other								2	**2**		**2**
Total transactions with shareholder and other providers of capital			**65**	**-4**				**12**	**73**	**-63**	**10**
At 31 December	**370**	**114**	**1,300**	**296**	**11**	**-33**	**-66**	**595**	**2,587**	**236**	**2,823**

[1] Equity attributable to shareholder of the Company and other providers of capital.

In millions of euros												2013
	Issued capital	Share premium reserve	Perpetual notes	Member bonds	Coopera-tive loan	Fair value reserve	Cash flow hedge reserve	Currency trans-lation reserve	Retained earnings	Equity [1]	Non-con-trolling interests	Total
At 1 January	370	114	130	1,084			-18	-43	503	2,140	118	2,258
Comprehensive income:												
• profit for the year			4	34					41	79	78	157
• other comprehensive income						15	-6	-71	-34	-96	-10	-106
Total comprehensive income for the year			4	34		15	-6	-71	7	-17	68	51
Transactions with shareholder and other providers of capital recognised directly in equity:												
• dividends paid to non-controlling interests											-98	-98
• interest payment to holders of perpetual notes			-9						1	-8		-8
• interest payment to holders of member bonds				-37					7	-30		-30
• issue of fixed member bonds				114						114		114
• repayment of perpetual notes			-125							-125		-125
• conversion Cooperative loan					290					290		290
• other									1	1		1
Total transactions with shareholder and other providers of capital			-134	77	290				9	242	-98	144
Changes in ownership interests in subsidiaries:												
• transactions with owners of non-controlling interests											-5	-5
• expiry of DFE put-option									40	40	143	183
Total changes in ownership interests in subsidiaries									40	40	138	178
At 31 December	370	114		1,195	290	15	-24	-114	559	2,405	226	2,631

Notes to the consolidated financial statements

In millions of euros, unless stated otherwise

General

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The consolidated financial statements for the year ended 31 December 2014 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

Zuivelcoöperatie FrieslandCampina U.A. is the sole shareholder of Royal FrieslandCampina N.V.

FrieslandCampina processes approximately over 10.5 billion kilograms of milk per year into a very varied range of dairy products containing valuable nutrients for consumers. In the professional market, FrieslandCampina is a key supplier of dairy products to bakeries, restaurants, bars and fastfood chains. In addition, FrieslandCampina also supplies high-quality ingredients to manufacturers in the food industry and pharmaceutical sector.

The consolidated financial statements have been prepared on a going concern basis.

Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union. They also comply with the financial reporting requirements included in Part 9 of Book 2 of the Dutch Civil Code, where applicable.

The Company income statement is presented in accordance with the provisions of article 2:402 Dutch Civil Code.

After authorisation for issue by the Executive Board and the Supervisory Board on 27 February 2015 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2014 will be made available for publication by the Executive Board on 12 March 2015. On 1 May 2015 the financial statements will be submitted for approval to the Board of Zuivelcoöperatie FrieslandCampina U.A. in its role as the General Meeting of Shareholders of Royal FrieslandCampina N.V.

Basis of measurement

Unless stated otherwise, the financial statements have been prepared on historical cost basis, except for the following material items in the statement of financial position:

- financial instruments, other than derivatives, valued at fair value through profit or loss;
- derivatives measured at fair value through profit or loss;
- net pension obligation (asset) under the defined benefit pension plan, measured at the fair value of the plan assets less the present value of the accrued pension entitlements.

Functional and presentation currency

The consolidated financial statements are presented in euros, which is FrieslandCampina's functional currency. All financial information presented in euros has been rounded off to the nearest million, unless stated otherwise.

Use of estimates and assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The actual results may differ from management's estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. The judgements, assumptions and estimates have been made taking into account the opinions and advice of (external) experts. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions considered most critical are:

- impairments (Notes 3, 11 and 12);
- useful lives of property, plant and equipment and intangible assets (Notes 11 and 12);
- utilisation of tax losses and uncertain fiscal positions (Notes 10, 21 and 27);
- measurement of defined benefit obligations (Note 20);
- key assumptions used in discounted cash flow projections (Notes 12, 23 and 30);
- provisions and contingencies (Notes 22 and 27).

For more detailed information regarding the treatment of the items mentioned see the Notes of the financial statements.

In 2014 FrieslandCampina further tightened its accounting policy in respect of advertising and promotion costs. As a consequence, costs related primarily to advertising and promotion have been reclassified as promotional discounts. The comparable figures for 2013 have been adjusted and this has led to a reclassification from other operating expenses (reduced by EUR 137 million) to net revenue (reduced by EUR 137 million). This adjustment has no effect on the net result, equity or the consolidated statement of financial position. See Notes 1, 4 and 8.

The comparable figures in the consolidated statement of financial position have been adjusted, whereby the portion of the loans from member dairy farmers that was classified as non-current (EUR 41 million) is now recognised under current liabilities in compliance with the conditions of this loan. See Notes 23 and 25.

Changes in accounting policies and disclosures

New and amended standards as adopted by FrieslandCampina

The following new and amended standards were mandatory for the first time for the financial year beginning 1 January 2014:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IAS 36 Recoverable amount disclosures for non-financial assets (Amendment to IAS 36)
- IAS 39 Renewal of derivatives and continuation of hedge accounting (Amendment to IAS 39)

Various other new standards and amendments were applicable for the first time in 2014 but do not have any impact on FrieslandCampina's consolidated financial statements, apart from some changes in disclosure requirements.

IFRS 10 Consolidated financial statements

IFRS 10 replaces the consolidation requirements in SIC 12 and IAS 27. IFRS 10 changes the definition of control such that the same criteria are applied to all entities in order to assess control. The revised definition of control focuses on the requirement to have both power over an investee and exposure or rights to variable returns before control is present. The new standard includes guidance on the determination whether there is control in an entity with less than half of the voting rights and for agent/principal relationships. This new standard has no material effect on the consolidated financial statements of FrieslandCampina.

IFRS 11 Joint arrangements

This new standard focuses on the rights and obligations of the parties to the joint arrangement rather than on its legal form. There are two types of joint arrangements: joint operations and joint ventures. Under IFRS 11 interests in joint operations are accounted for on the basis of the interest in the assets and liabilities and interests in joint ventures are accounted for using the equity method. This new standard has no material effect on the consolidated financial statements of FrieslandCampina.

IFRS 12 Disclosure of interests in other entities

This new standard includes all of the disclosures previously included in IAS 27, IAS 31 and IAS 28 and a number of new disclosure requirements. This new standard entails additional disclosure requirements relating to interests in subsidiaries, joint arrangements and associates.

IFRS 10, IFRS 11 and IFRS 12 Transitional arrangement

These amendments provide additional guidelines for the changes in IFRS 10, IFRS 11 and IFRS 12, whereby only adjusted comparable information should be disclosed over the most recent prior period. In addition, differences in the carrying value due to the implementation of IFRS 10 are recognised immediately in equity. This transitional arrangement has no material effect on the consolidated financial statements of FrieslandCampina.

IAS 36 Recoverable amount disclosures for non-financial assets (Amendment to IAS 36)

This amendment limits the obligation to provide the difference between the recoverable amount and the carrying amount of a cash-generating unit for the period in which no impairment has occurred or is reversed. In addition, the disclosure requirements have been expanded in respect of the recoverable amount if this has been determined on the basis of fair value less costs of disposal. This change has no material effect on the consolidated financial statements of FrieslandCampina.

IAS 39 Renewal of derivatives and continuation of hedge accounting (Amendment to IAS 39)

This amendment to IAS 39 enables companies, in certain circumstances, to continue a hedging relationship when the underlying contract is renewed. This can be the case when a novation is necessary to settle accounts with a central counterparty due to changes in legislation and regulations. The amendment of IAS 39 is the result of changes in legislation and regulations in many jurisdictions which will lead to a great number of renewals of hedging instruments. This amendment has no material effect on FrieslandCampina's consolidated financial statements.

New and revised standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2014 and not adopted early

The following new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements:

IFRS 9 Financial instruments
IFRS 9 comprises revised stipulations regarding the classification and measurement of financial instruments, including a new model for anticipated credit losses for the purpose of calculating the devaluation of financial assets, and the new general requirements for hedge accounting. FrieslandCampina will not early adopt this standard and the extent of the impact has not yet been determined. This standard has yet to be endorsed by the EU. IFRS 9 is expected to become effective from 1 January 2018.

IFRS 15 Revenue from contracts with customers
IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to determine if, how much and when revenue should be recognised. IFRS 15 also includes more extensive disclosure requirements than the current IFRS guidance for revenue. The impact of IFRS 15 for FrieslandCampina's consolidated financial statements is currently being investigated. IFRS 15 is expected become effective from 1 Januari 2017, although this standard has yet to be endorsed by the EU.

FrieslandCampina is currently evaluating the potential impact of other new standards, revisions to standards and interpretations that will come into effect on or after 1 January 2015 and that will not be early adopted by FrieslandCampina. It is not anticipated that any of these standards will have a material effect on FrieslandCampina's consolidated financial statements.

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by all FrieslandCampina's entities.

Basis of Consolidation

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to FrieslandCampina. FrieslandCampina is deemed to have control if, on the basis of its involvement with the entity, it is exposed to or is entitled to variable returns and has the power to influence the variable returns on the basis of its control over the entity.

FrieslandCampina measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

If the excess is negative, a bargain purchase gain is recognised immediately in the income statement. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Transaction costs incurred by FrieslandCampina in connection with a business combination, which are not costs in connection with the issue of shares or bonds, are recognised in the income statement when they are incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity it is not remeasured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognised in the income statement.

Changes in the value of put-option liabilities related to acquisitions before the implementation of IFRS 3 in 2010 are recognised in goodwill.

For each business combination, FrieslandCampina elects to measure any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets, which are generally at fair value.

Acquisition of non-controlling interests

Changes in FrieslandCampina's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

Subsidiaries

Subsidiaries are entities controlled by FrieslandCampina. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Loss of control

At the moment of loss of control, FrieslandCampina derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the income statement. If FrieslandCampina retains any interest in the previous subsidiary such interest is measured at fair value at the date control ceases. Subsequently the interest is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Associates and joint ventures

Associates are those entities in which FrieslandCampina has significant influence, but not control, over the financial and operating policies. Joint ventures are the entities in which FrieslandCampina has joint control and related to which FrieslandCampina is entitled to a portion of the net assets rather than the assets and liabilities of the entity.
A joint venture is a contractual arrangement whereby FrieslandCampina and other parties undertake an economic activity through a jointly controlled entity.
Joint control exists when strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include FrieslandCampina's share of the results and other comprehensive income of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When FrieslandCampina's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interest that forms a part thereof, is reduced to zero and the recognition of further losses is discontinued except to the extent that FrieslandCampina has an obligation or has made payments on behalf of the investee.

Elimination of inter-company transactions

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated when preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of FrieslandCampina's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

A list of the principal subsidiaries, joint ventures and associates is included on page 134.

Foreign currency translation

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the statement of financial position date. Transactions denominated in foreign currencies are translated at the exchange rate prevailing on the date of the transaction.

Non-monetary items valued at historical cost in foreign currencies are translated at the exchange rates prevailing on the date of the initial transaction. Non-monetary items valued at fair value in foreign currencies are translated using the exchange rates prevailing on the date on which the fair value was determined.

Foreign currency differences arising on translation are recognised in the income statement, except for the following differences, which are recognised in other comprehensive income arising on the translation of:

- available-for-sale equity investments (except on impairment, in which case foreign currency differences that have been recognised in the consolidated statement of comprehensive income are reclassified to the income statement);
- a financial liability designated as a hedge of the net investment in a foreign operation;
- qualifying cash flow hedges to the extent the hedges are very effective.

These differences are recognised in equity via the consolidated statement of comprehensive income.

Foreign operations

Assets and liabilities of foreign subsidiaries are translated at the exchange rates on the statement of financial position date; their income and expenses are translated at the exchange rates on the date of the transaction. Foreign currency translation differences are recognised in other comprehensive income and presented in the currency translation reserve in equity. If however, the foreign operation is a non-wholly owned subsidiary, the relevant proportion of the translation difference is allocated to non-controlling interests.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to the income statement as part of the gain or loss on disposal. When FrieslandCampina disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is classified as a non-controlling interest. When FrieslandCampina disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the income statement.

If the settlement of a monetary receivable from or obligation to a foreign activity is neither planned nor likely in the foreseeable future, this is considered as a net investment in the foreign activity. Currency translation differences that arise through the translation of a receivable or liability that is classified as a net investment in a foreign activity are recognised in the consolidated statement of comprehensive income and accounted for in the currency translation differences reserve in equity. If this receivable or liability is repaid, the portion of the currency translation differences reserve related to this net investment is transferred to the income statement.

The following exchange rates have been used in the preparation of the consolidated financial statements:

		2014
	At year-end	Average
US dollar	1.21	1.33
Singapore dollar	1.60	1.68
Hong Kong dollar	9.38	10.30
Indonesian rupiah (10,000)	1.50	1.58
Malaysian ringgit	4.23	4.35
Nigerian naira (100)	2.21	2.19
Vietnamese dong (10,000)	2.59	2.82
Chinese yuan	7.51	8.19
Philippine peso	54.19	58.98
Thai baht	39.94	43.14
Russian ruble	70.23	51.03

		2013
	At year-end	Average
US dollar	1.37	1.33
Singapore dollar	1.74	1.66
Hong Kong dollar	10.67	10.30
Indonesian rupiah (10,000)	1.68	1.38
Malaysian ringgit	4.51	4.20
Nigerian naira (100)	2.20	2.12
Vietnamese dong (10,000)	2.90	2.79
Chinese yuan	8.32	8.16
Philippine peso	61.02	56.44
Thai baht	45.09	40.88
Russian ruble	45.22	42.41

Financial Instruments

Non-derivative financial assets

FrieslandCampina initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through the income statement) are recognised initially on the trade date, which is the date that FrieslandCampina becomes a party to the contractual provision of the instrument.

FrieslandCampina derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position if, and only if, FrieslandCampina has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

FrieslandCampina classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is designated as such on initial recognition or if the financial asset is reclassified as an available-for-sale financial asset. Attributable transaction costs are recognised in the income statement as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein are recognised in the income statement.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised costs using the effective interest method, less any impairment losses.

Available-for-sale financial assets
These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at fair value and any changes, other than impairment losses, are recognised in the consolidated statement of other comprehensive income and accumulated in the fair value reserve. When these assets are derecognised the gain or loss accumulated in equity is reclassified to the income statement.

Cash and cash equivalents
Cash and cash equivalents comprise cash at banks and in hand and short-term deposits with maturities of three months or less from the acquisition date.

Non-derivative financial liabilities
FrieslandCampina initially recognises debt securities and subordinated liabilities on the date on which they were originally issued. All other financial liabilities (including liabilities designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that FrieslandCampina becomes a party to the contractual provision of the instrument.

FrieslandCampina derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

FrieslandCampina classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised costs using the effective interest method. Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

Derivatives (including hedge accounting)
FrieslandCampina holds derivatives to hedge its foreign currency risk, cash flow risks and interest rate risk exposure.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as described below, depending on whether hedge accounting has been applied.

Derivatives for which hedge accounting is applied
FrieslandCampina applies cash flow hedge accounting on a portion of its foreign currency and interest rate derivatives.

Determination of hedge effectiveness
On initial designation of the derivative as a hedging instrument, FrieslandCampina formally documents the relationship between the hedging instrument and the hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. At the start of the hedge relationship, and on each subsequent reporting date, FrieslandCampina assesses whether the hedging instruments are expected to be 'highly effective' in offsetting the changes in fair value or cash flow attributable to the hedged position(s) throughout the period of the hedge such that the actual result of every hedge will be between 80% and 125%. The criteria for a cash flow hedge of an anticipated transaction are that it is very probable that the transaction will take place and that this transaction will create an exposure to fluctuations in cash flow of such a severity that they could ultimately affect the reported profit or loss.

Cash flow hedges
When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability, or as a highly probable forecast transaction that could affect the income statement, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedged item is a non-financial asset the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases the amount accumulated in equity is reclassified to the income statement in the same period that the hedged item affects the income statement. If the hedging instrument no longer meets the criteria for hedge accounting, expires, is sold, is terminated or is exercised, hedge accounting is terminated from the date of the most recent assessment of effectiveness. If the forecast transaction is no longer expected to occur the balance in equity is reclassified to the income statement.

Other non-trading derivatives
When a derivative is not designated as a hedge relationship that qualifies for hedge accounting all changes in its fair value are recognised immediately in the income statement.

Equity

Share capital
The shares are classified as equity. Costs directly attributable to the extension of the share capital are deducted from equity after taxation. The authorised capital comprises paid-up capital and the remaining portion concerns share premium reserve.

Other financial instruments
Other financial instruments are classified as equity if the instruments do not have a maturity date and FrieslandCampina can defer the interest payments.

Dividends
Dividends are recognised as a liability in the period in which they are declared.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost price includes any costs directly attributable to the acquisition of the asset. The cost price of self-manufactured assets comprises:

- costs of materials and direct labour costs;
- any other costs directly attributable to making the asset ready for use;
- if FrieslandCampina has an obligation to remove the asset, an estimate of the cost of dismantling and removing the items;
- capitalised borrowing costs.

Property, plant and equipment also include assets of which FrieslandCampina has acquired beneficial ownership under finance lease agreements. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

If parts of an item of property, plant and equipment have different useful lives the parts are accounted for as separate items of property, plant and equipment. Any gain or loss on the disposal of an item of property, plant and equipment is determined on the basis of a comparison of the proceeds from the sale and the carrying amount of the property, plant or equipment and is recognised in the income statement.

Subsequent costs

Subsequent costs are capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to FrieslandCampina. Ongoing repair and maintenance costs are expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in the income statement over the estimated useful life of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that FrieslandCampina will obtain ownership at the end of the lease term. Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use.

The estimated useful lives for the current year of significant items of property, plant and equipment and other operational assets are as follows:

Land	not depreciated
Buildings	10-25 years
Plant and equipment	5-33 years
Other operational assets	3-20 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and if appropriate, adjusted.

Intangible assets and goodwill

Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented as an intangible asset. For the measurement of goodwill at initial recognition, see the basis of consolidation for business combinations. Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees the carrying amount of goodwill is included in the carrying amount of the investment and any impairment loss is allocated to the carrying amount of the equity-accounted investee as a whole.

Research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in the income statement as incurred. Development activities include the drawing-up of a plan or design for the production of new or significantly improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product process is technically and commercially feasible, future economic benefits are probable, and FrieslandCampina intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour, overhead costs directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets which are acquired by FrieslandCampina and which have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent costs

Subsequent costs are capitalised only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

Amortisation

Intangible assets other than goodwill are amortised on a straight-line basis in the income statement over their estimated useful lives calculated from the date that they are available for use.

The estimated useful lives for the current and comparative years are as follows:

Trademarks and patents	10-40 years
Customer relations	5-20 years
Software	5 years
Capitalised internal development costs	5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Inventories

Inventories are measured at the lower of cost and market value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories, cost includes an appropriate share of production overheads based on normal operating capacity. The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Impairment

Non-derivative financial assets

A financial asset that is not classified at fair value through profit and loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event has had a negative effect on the estimated future cash flows of the asset that can be measured reliably. An objective indication of impairment can comprise significant payment difficulties of a debtor or group of debtors, indications that it is possible a debtor may not be able to meet payment obligations or may file for bankruptcy, the disappearance of an active market that will bring about, or observable data indicating, a measurable decline in the expected cash flows of a group of financial assets.

Financial assets measured at amortised cost

FrieslandCampina measures financial assets at amortised cost at both a specific asset and collective level. An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Financial assets classified as available-for-sale

Impairment losses on financial assets classified as available-for-sale are recognised by transferring the accumulated loss in the fair value reserve to comprehensive income. The transferred amount is the difference between the acquisition price, less any repayment of the acquisition price and amortisation, and the current fair value, reduced by any impairment loss previously recognised in the result.

Non-financial assets

The carrying amounts of FrieslandCampina's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists the asset's recoverable amount is estimated. Goodwill and intangible assets with an indefinite life are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or Cash Generating Unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to dispose. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or CGU. The business value is determined on the basis of the budget and the long-term plans and then the cooperative surcharge of Cheese, Butter & Milkpowder is allocated to other business groups.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to the operating segment ceiling test, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level within FrieslandCampina at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to the FrieslandCampina CGUs that are expected to benefit from the synergies of that combination.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. An impairment loss on other assets is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Assets held for sale or distribution

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale the assets, or components of a disposal group, are remeasured in accordance with FrieslandCampina's accounting policies. Thereafter the assets, or disposal group, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with FrieslandCampina's accounting policies.

Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised through the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale intangible assets and property, plant and equipment are not amortised or depreciated.

In addition, equity accounting of equity-accounted investments ceases once classified as held for sale.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligations to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the income statement in the periods during which the related services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The portion of the pension obligation FrieslandCampina has placed with an industry-branch pension fund in the Netherlands can be qualified as a defined contribution plan.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net pension obligation (asset) in respect of defined benefit plans are calculated annually for each plan on the basis of expected future developments in discount rates, salaries and life expectancy, less the fair value of the fund investments related to the plan. The present value of the obligations is calculated actuarially using the projected unit credit method. The discount rate used is the return at the balance sheet date on high-quality corporate bonds with at least an AA credit rating and with maturity dates similar to the duration of the pension obligations.

The net present value per pension plan is recognised as a pension obligation, or as a pension asset, under non-current financial assets.

Remeasurement of the net pension obligation (asset), comprising actuarial gains and losses resulting from changes in the assumptions for calculating the pension obligation, the return on plan assets (excluding interest) and the impact of the effect of the asset ceiling (if applicable) is carried out for each individual plan and recognised immediately in consolidated statement of comprehensive income.

If the calculation of the net pension per pension plan obligation results in a positive balance, the asset recognised is limited to the sum of the present value of any future repayments by the fund or lower future pension contributions.

FrieslandCampina determines the net interest expenses (gains) resulting from the defined benefit plan by multiplying the net pension obligation (asset) with the discount rate used to measure the defined pension plan at the start of the year. Changes in the net pension obligation (asset) during the year as a result of benefits being paid out are taken into account. The net interest expenses (gains) and other costs related to the defined benefit plan are recognised in the income statement.

FrieslandCampina recognises results due to the adjustment (plan amendment, curtailment and settlement) of pension plans through profit or loss at the time an adjustment occurs or at the moment a restructuring provision is formed.

Other long-term employee benefits

The net obligation for other deferred employee remuneration is recognised similarly to defined benefit plans.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed at the time the related service is provided. A liability is recognised for the amount expected to be paid as a short-term employee benefit if FrieslandCampina has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised when, as a result of a past event, FrieslandCampina has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

Provisions for restructuring are formed when FrieslandCampina has formalised a detailed and formal restructuring plan and has either started implementing the restructuring plan or has announced the main aspects of the restructuring in such a way that the people who will be affected by it have a valid expectation the restructuring will take place.

A provision for onerous contracts is recognised when the expected benefits to be derived by FrieslandCampina from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established FrieslandCampina recognises any impairment loss on the assets associated with the contract.

Revenue

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, the discount is recognised as a reduction of revenue as the sales are recognised.

FrieslandCampina has customer loyalty programmes in place through which customers can earn points when they purchase certain FrieslandCampina products. When a minimum number of points has been earned they can be exchanged for discounts on third-party goods or services. The proceeds are allocated to the products sold and the points granted with the value attributed to the points being their fair value. The fair value of the value attributed to the points is deferred until the savings points are redeemed, at which point the fair value is recognised as revenue.

Government grants

Government grants are recognised at fair value when there is reasonable assurance that the grant will be received and all related conditions will be complied with. When a grant relates to an expense item it is deducted from the costs made over the period that are necessary to match the grant on a systematic basis to the costs that it is intended to compensate. By reducing the depreciation expense this grant is accounted for in the income statement as income over the period of the expected useful life of the asset to which the grant relates.

Cost of raw materials, consumables used and commodities

This concerns the cost of raw materials, consumables used and commodities related to the products sold and/or the cost of acquiring the products sold. The cost of raw materials, consumables used and commodities is calculated in accordance with the first-in-first-out principle. The cost includes the currency translation differences related to trade payables as well as the differences in valuation of related derivatives.

Leases

At the inception of an arrangement FrieslandCampina determines whether such an arrangement is, or contains, a lease. This will be the case if the following two criteria are met: the fulfilment of the arrangement is dependent on the use of a specific asset or assets; and the arrangement contains a right to use the asset(s). At inception, or on reassessment of the arrangement, FrieslandCampina separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If FrieslandCampina concludes that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using FrieslandCampina's incremental borrowing rate.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so at to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and finance costs

Finance income comprises interest received on loans and receivables from third parties, dividend income, positive changes to the fair value of financial assets valued at fair value after incorporating changes in value in the income statement, gains on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income. Interest income is recognised in the income statement as it accrues using the effective interest method.

Finance costs comprises interest expenses on borrowings and other obligations to third parties, fair value losses on financial assets at fair value through profit or loss, unwinding the discount on provisions, impairment losses recognised on financial assets (other than trade receivables), losses on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income. Interest expenses are recognised in the consolidated income statement as they accrue by means of the effective interest method.

Foreign currency gains and losses from trade debtors and creditors are recognised as a component of operating profit. All other foreign currency gains and losses are reported on a net basis as either finance income or finance costs depending on whether foreign currency movements are in a net gain or net loss position.

Taxes

Tax expense comprises current and deferred tax. Current and deferred tax is recognised in the income statement except to the extent that it relates to a business combination, or items recognised directly in equity, or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustments to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.
Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be settled in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

In determining the amount of current and deferred tax FrieslandCampina takes into account the effect of uncertain tax positions and whether additional taxes and interest may be due. FrieslandCampina operates in several different tax jurisdictions. This leads to complex tax issues. The ultimate decision regarding these complex tax issues is often outside the control of FrieslandCampina and depends on the efficiency of the legal processes in the relevant tax jurisdiction. FrieslandCampina believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions about future events. New information may become available that causes FrieslandCampina to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will affect tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and the assets and liabilities relate to taxes levied by the same tax authority, on the same taxable entity or on different tax entities, but they intend either settling current tax liabilities and assets on a net basis or realising their tax assets and liabilities simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Segmentation

The identified operating segments are the separate segments within FrieslandCampina for which financial information is available and frequently evaluated by the Executive Board in order to come to decisions regarding the attribution of the available means to the segment and to determine the performance of the segment.

FrieslandCampina has divided the operating segments into the business groups: Consumer Products Europe, Middle East & Africa; Consumer Products Asia; Cheese, Butter & Milkpowder and Ingredients. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and liabilities, corporate expenses, the performance premium and the distribution of registered fixed member bonds.

Cash flows

The cash flow statement is prepared using the indirect method. Cash flows in foreign currencies have been translated into euros at the exchange rates prevailing on the transaction date.

Determination of fair values

A number of FrieslandCampina's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. If applicable, further information about the assumptions made in determining fair values is disclosed in the Notes.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is the estimated amount for which property could be exchanged on the acquisition date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably. The fair value of items of plant and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and depreciated replacement costs when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

Intangible assets

The fair value of patents and trademark names acquired in a business combination is based on the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated cost of completion and sale and plus a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables outstanding for longer than a year is determined based on the present value of future cash flows, discounted at the market interest rate at the reporting date.

Securities

The fair value of securities of entities listed on the stock exchange is determnined on the basis of the stock exchange price. The fair value of the securities of entities not listed on the stock exchange is determined using information regarding the assets or liabilities that is directly or indirectly observable.

Derivatives

The fair value of forward exchange contracts is generally determined by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract.
The fair value of interest rate swaps and cross-currency interest rate swaps is determined by discounting the cash flows resulting from the contractual interest rates of both sides of the transaction. The fair value takes into account the current interest rates, current foreign currency rates and the current creditworthiness of both the counterparties and FrieslandCampina itself.

Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. The fair value of the option liability is determined on the basis of the discounted cash flows.

1 Segment reporting

FrieslandCampina is divided into four segments – the four business groups – which are recognised in the segment reports. Each business group is concerned with a particular product group. In the Consumer Products product group an additional division is made according to geographic region. FrieslandCampina's four business groups are:

- Consumer Products Europe, Middle East & Africa: dairy based beverages, yoghurts, desserts, coffee creamers, condensed milk, infant nutrition, milk powder, butter, branded cheese, fruit juices and beverages. Brand names include Campina, Chocomel, Frico, Friso, Fruttis, Landliebe, Milli, Milner, Mona, NoyNoy, Optimel, Peak, Pearl and Rainbow;
- Consumer Products Asia: infant nutrition, dairy based beverages, yoghurts, milk powder and condensed milk. Brand names include Alaska, Dutch Lady, Foremost, Friso and Frisian Flag;
- Cheese, Butter & Milkpowder: cheese, butter and milk powder, all over the world.
- Ingredients: ingredients for infant nutrition and the food and pharmaceutical industries, all over the world.

Revenue third parties in the 'other' category includes the supply of raw milk to third parties resulting from the obligation imposed by the European Commission at the time of the merger in 2008, see Note 27 for further information.

The comparable figures in the segmentation by business group deviate from the figures in the 2013 annual report due to further tightening of the accounting policy related to advertising and promotion costs (see page 80), an internal shift of the activities and the adjustment in determination of the internal price in respect of milk components.

Segment reporting by business group							**2014**
	Consumer Products EMEA	Consumer Products Asia	Cheese, Butter & Milkpowder	Ingredients	Other	Elimination	**Total**
Revenue third parties	3,863	2,369	2,904	1,750	462		**11,348**
Inter-segment revenue [1]	351	18	658	533		-1,560	
Total operating income	**4,214**	**2,387**	**3,562**	**2,283**	**462**	**-1,560**	**11,348**
Operating profit	240	438	-91	179	-277		**489**
Share of profit of joint ventures and associates	-1	6	3	4	1		**13**
Finance income and cost							-48
Income tax expense							-151
Profit for the year							**303**
Operating profit as a % of revenue third parties	6.2	18.5	-3.1	10.2			4.3
Carrying amounts of assets employed in operating activities [2]	2,080	1,047	1,287	1,903	652	-510	**6,459**
Carrying amounts of other assets							1,217
							7,676
Liabilities resulting from operating activities [3]	836	642	426	390	1,223	-510	**3,007**
Other liabilities							1,846
							4,853
Additions in property, plant, equipment and intangible assets	167	70	71	287	61		**656**
Depreciation of plant and equipment and amortisation of intangible assets	-76	-29	-49	-56	-21		**-231**
Impairment of non-current assets	-16	-3	-4	-1			**-24**
Reversal of impairment of non-current assets	1						**1**
Investments in joint ventures and associates		70	28	18	6		**122**

Geographical information		**2014**
	Revenue third parties [4]	Carrying amount of operating non-current assets [5]
Netherlands	5,400	2,425
Germany	1,005	387
Rest of Europe	1,348	294
Asia and Oceania	2,577	624
Africa and the Middle East	881	95
North and South America	137	22
Total	**11,348**	**3,847**

1 Internal supplies are measured in a similar way to transactions with third parties.
2 Concerns the carrying value of assets excluding deferred tax assets, investments in joint ventures and associates, loans provided, securities, long-term receivables, income tax receivables, receivables from affiliated company, cash and cash equivalents and assets held for sale.
3 Concerns employee benefits, provisions, derivative liabilities, trade payables and other liabilities, excluding payables to affiliated companies.
4 Concerns revenue third parties separated according to the country in which the operating company is located, with the comparable figures adjusted as described in accounting policies (see page 80). See Note 4 for a breakdown of revenue according to the customer's geographical location.
5 Relates to property, plant and equipment and intangible assets.

Segment reporting by business group							2013
	Consumer Products EMEA	Consumer Products Asia	Cheese, Butter & Milkpowder	Ingredients	Other	Elimination	Total
Revenue third parties	3,937	2,274	2,831	1,801	438		11,281
Inter-segment revenue [1]	246	19	531	468		-1,264	
Total revenue	4,183	2,293	3,362	2,269	438	-1,264	11,281
Operating profit before goodwill impairment	220	385	81	241	-414		513
Operating profit	20	385	81	241	-414		313
Share of profit of joint ventures and associates		7	1	1	-1		8
Finance income and cost							-55
Income tax expense							-109
Profit for the year							157
Operating profit as a % of revenue third parties	0.5	16.9	2.9	13.4			2.8
Carrying amounts of assets employed in operating activities [2]	2,045	879	1,398	1,606	715	-639	6,004
Carrying amounts of other assets							1,108
							7,112
Liabilities resulting from operating activities [3]	914	460	535	400	1,321	-639	2,991
Other liabilities							1,490
							4,481
Additions in property, plant, equipment and intangible assets	138	40	56	254	71		559
Depreciation of plant and equipment and amortisation of intangible assets	-75	-30	-46	-48	-14		-213
Impairment of non-current assets	-214	-1	-2	-1	-1		-219
Reversal of impairment of non-current assets			1				1
Investments in joint ventures and associates	2	67	25	17	5		116

Geographical information		2013
	Revenue third parties [4]	Carrying amount of operating non-current assets [5]
Netherlands	5,479	2,079
Germany	1,076	384
Rest of Europe	1,476	299
Asia and Oceania	2,407	523
Africa and the Middle East	708	67
North and South America	135	15
Total	11,281	3,367

2 Acquisitions

Acquisition of the dairy-related activities of Olam Ivoire Sarl

On 20 October 2014 FrieslandCampina acquired the sweet condensed milk and evaporated milk activities of Olam Ivoire Sarl by means of an asset deal and, in addition, purchased the 'Pearl' brand under which sweet condensed milk and evaporated milk are sold in the Ivory Coast. The activities have been added to the business group Consumer Products EMEA.

The total acquisition price of EUR 22 million was paid in 2014. The goodwill amounting to EUR 5 million that has arisen as a result of this acquisition has been allocated to the business group Consumer Products EMEA.

This acquisition does not have a material effect on FrieslandCampina in the context of the disclosure requirements of IFRS 3 Business combinations.

Acquisition of the activities of DEK Srl and the obtaining of an 80% interest in Orange Srl

On 1 Ocotber 2014 FrieslandCampina acquired the activities of DEK Srl by means of an asset deal and obtained an 80% interest in orange Srl. The activities have been added to the business group Cheese, Butter & Milkpowder. The acquisition price of EUR 8 million included EUR 2 million acquired cash and cash equivalents. EUR 7 million of the acquisition price was paid in 2014 and EUR 1 million concerns a put-option liability that is accounted for on the basis of the 'anticipated-acquisition method'.

This acquisition does not have a material effect on FrieslandCampina in the context of the disclosure requirements of IFRS 3 Business combinations.

Zijerveld en Den Hollander Food

On 1 May 2013 FrieslandCampina acquired full control of Zijerveld en Veldhuyzen B.V. and G. den Hollander Holding B.V. (Zijerveld and Den Hollander Food) for the sum of EUR 80 million plus a contingent consideration of EUR 19 million. The transaction took place on the basis of the acquisition method, whereby the fair value of acquired assets and liabilities was determined at EUR 74 million. The goodwill of EUR 25 million has been allocated to the business group Cheese, Butter & Milkpowder. The purchase price allocation in respect of the acquisition of Zijerveld and Den Hollander Food in 2013 was definitively finalised at the beginning of 2014. There were no material changes compared with the preliminary purchase price allocation.

3 Assets and liabilities held for sale

Assets held for sale relate to property, plant and equipment amounting to EUR 7 million (2013: EUR 9 million). At the end of 2014 and 2013 no liabilities related to current and non-current liabilities were held for sale.

The movements in assets held for sale during the year relate to an impairment of the Debrecen facility in Hungary, the disposal of the Varsseveld facility in the Netherlands and the transfer of plant and equipment that is expected to be sold early 2015.

	2014	2013
At 1 January	9	7
Transfer of property, plant and equipment	2	2
Disposals	-2	
Impairment	-2	-1
Reversal of impairment		1
At 31 December	**7**	9

4 Revenue

		2014		2013 [1]
Revenue by geographical location of customers				
		%		%
Netherlands	2,686	24	2,655	24
Germany	1,368	12	1,436	13
Rest of Europe	2,714	24	2,809	25
Asia and Oceania	2,978	26	2,873	25
Africa and the Middle East	1,241	11	1,158	10
North and South America	361	3	350	3
	11,348	**100**	11,281	100

[1] The comparable figures for 2013 have been restated as explained in the accounting policies (see page 80).

Concerns revenue according to the geographical location of the customers. See Note 1 for the breakdown of revenue third parties according to the country in which the operating company is located.

5 Other operating income

Other operating income includes proceeds from services provided to third parties, insurance proceeds, rental income and the sale of property, plant and equipment and intangible assets. In 2014 this item comprised mainly a received insurance pay-out of EUR 51 million as a result of a fire at the Gerkesklooster facility.

Settlement of Gerkesklooster fire

On 29 July 2014 a fire at FrieslandCampina Cheese in Gerkesklooster totally destroyed the cheese warehouse and severely damaged other parts of the complex. At the beginning of September 2014 cheese production was partially resumed using temporary facilities. Rebuilding and repair started immediately after the fire and will continue during 2015.

As a result of the fire claims for both material damages and business interruption were submitted to the insurance company. In 2014 the insurance company paid out a total of EUR 51 million for material damages to non-current assets and inventories (EUR 36 million) and business interruption in 2014 (EUR 15 million). These proceeds are recognised in other operating income. The result related to the fire in Gerkesklooster amounts to EUR 20 million.

In 2015 the business interruption related to 2015 will be settled.

6 Raw materials, consumables used and commodities

		2014		2013
		%		%
Milk from member dairy farmers	-4,056	52	-3,990	52
Cost of other raw materials, consumables used and commodities	-3,764	48	-3,623	48
	-7,820	**100**	-7,613	100

7 Employee benefit expenses

	2014	2014 %	2013	2013 %
Wages and salaries	-787	76	-743	77
Social security charges	-123	12	-117	12
Pension costs	-119	12	-111	11
	-1,029	**100**	-971	100
Pension plan amendment	131		29	
	-898		-942	

For a further explanation of the pension plan amendment see Note 20.

Employees by business group (average number of FTEs)

	2014	2014 %	2013	2013 %
Consumer Products EMEA	7,931	36	8,198	39
Consumer Products Asia	7,077	32	6,430	30
Cheese, Butter & Milkpowder	2,736	12	2,659	13
Ingredients	3,101	14	3,002	14
Other	1,323	6	897	4
	22,168	**100**	21,186	100

Employees by geographical region (average number of FTEs)

	2014	2014 %	2013	2013 %
Netherlands	7,613	34	7,112	34
Germany	1,653	7	1,692	8
Rest of Europe	4,105	19	4,343	20
Asia and Oceania	7,574	34	6,846	32
Africa and the Middle East	1,060	5	1,026	5
North and South America	163	1	167	1
	22,168	**100**	21,186	100

8 Other operating expenses

	2014	2013 [1]
Transport costs	-470	-469
Advertising and promotions costs	-331	-348
Work contracted out and temporary staff costs	-332	-355
Utility costs	-219	-219
Repair and maintenance costs	-156	-160
Other expenses	-467	-472
	-1,975	-2,023

[1] The comparable figures for 2013 have been restated as described in the accounting policies (see page 80).

The item 'other expenses' includes:
- research and development expenses which in 2014 amounted to EUR 78 million (2013: EUR 77 million) of which in 2014 EUR 47 million related to staff costs;
- operational leasing expenses amounting to EUR 69 million (2013: EUR 62 million);
- various government grants amounting to EUR 6 million (2013: EUR 5 million) are deducted from the costs to which they relate. The conditions for these grants have been met and the related obligations fulfilled;
- impairment of property, plant and equipment, intangible assets (excluding goodwill) and assets held for sale amounting to EUR 24 million (2013: EUR 19 million);
- reversal of impairment of assets held for sale of EUR 1 million (2013: EUR 1 million);
- addition to the restructuring provision of EUR EUR 17 million (2013: EUR 17 million);
- cleaning expenses of EUR 41 million (2013: EUR 40 million);
- gain from a fair value adjustment of the contingent consideration of EUR 16 million;
- external auditor's fees of EUR 3 million (2013: EUR 4 million).

Specification of external auditor's fees

	2014	2013
	Total KPMG netwerk	Total KPMG netwerk
Audit of the financial statements	-2.7	-2.7
Other audit engagements	-0.1	-0.5
Tax related engagements	-0.1	-0.3
Other non-audit engagements	-0.1	-0.3
	-3.0	-3.8

9 Finance income and costs

	2014	2013
Finance income		
Interest income	9	23
Other finance income		2
	9	25
Finance costs		
Interest expenses	-41	-54
Gains (losses) on foreign exchange		-14
Other finance costs	-16	-12
	-57	-80

In 2014 FrieslandCampina agreed a new credit facility of EUR 1.5 billion, whereby the then valid credit facility was repaid early, see Note 23. As a result of the early repayment, the remaining as yet not amortised costs of the repaid facility amounting to EUR 3 million are recognised in other finance expenses.

Other finance cost also include amortisation of transaction costs and commitment fees for the syndicate loan of EUR 4 million (2013: EUR 5 million), the interest accrual of the contingent consideration of EUR 3 million (2013: 1 million) and the result from derivatives of EUR 6 million (2013: gain EUR 2 million).

Interest expenses in 2013 included EUR 5 million resulting from financing by Zuivelcoöperatie FrieslandCampina U.A. of Royal FrieslandCampina N.V. On 30 December 2013 this financing was converted into a perpetual subordinated loan. As a result, in 2014 the interest expenses related to this financing was included in equity.

Foreign exchange results related to the cost of raw materials and consumables used and other operating expenses are included in cost of sales or in the appropriate component of operating expenses. In 2014 FrieslandCampina included this net exchange effect of EUR 13 million gain in operating profit (2013: EUR -15 million loss).

10 Income tax expense

	2014	2013
Breakdown of tax expense		
Current tax expense		
Current tax expense, current year	-130	-143
	-130	-143
Deferred tax expense		
Deferred tax expense recognised in the current year	-18	34
Write-down of deferred tax assets	-3	-1
Adjustments for prior years		1
	-21	34
Income tax expense	**-151**	-109

	2014			2013		
	Before tax	Tax expense/ benefit	Net of tax	Before tax	Tax expense/ benefit	Net of tax
Income tax recognised directly in equity						
Cooperative loan	-10	2	-8			
Perpetual notes				-4	1	-3
Member bonds	-40	8	-32	-34	7	-27
	-50	**10**	**-40**	-38	8	-30
Income tax recognised as other comprehensive income						
Currency translation reserve	60	-6	54	-88	7	-81
Cash flow hedge reserve	-12	3	-9	-9	3	-6
Movement available-for-sale financial assets	-4		-4	16	-1	15
Remeasurement of obligations (assets) under defined benefit pension plans	-213	51	-162	-44	10	-34
	-169	**48**	**-121**	-125	19	-106

	2014		2013	
Effective tax rate	Amount	%	Amount	%
Profit before tax	454		266	
Tax payable on the basis of the Dutch tax rate	-114	25.0	-66	25.0
Effect of different tax rates outside the Netherlands	-6	1.4	-6	2.1
Share of result of joint ventures and associates	4	-0.9	2	-0.8
Withholding tax on dividends	-4	0.9	-8	3.0
Non-deductible expenses	-35	7.7	-43	16.2
Tax exempt income	7	-1.5	12	-4.5
Write-down of deferred tax assets	-3	0.7	-1	0.4
Adjustments to estimates relating to prior years			1	-0.4
Effective tax rate	**-151**	**33.3**	-109	41.0

11 Property, plant and equipment

2014	Land and buildings	Plant and equipment	Other operating assets	Assets under construction	**Total**
Carrying amount at 1 January	516	1,034	115	518	**2,183**
Acquired through acquisition	4	6			**10**
Additions	66	168	17	353	**604**
Disposals	-2	-3	-1		**-6**
Currency translation differences	5	14		3	**22**
Transfers	92	160	3	-256	**-1**
Transfer to assets held for sale		-2			**-2**
Depreciation	-42	-135	-25		**-202**
Impairment	-3	-15	-1	-1	**-20**
Reversal of impairment	1				**1**
Carrying amount at 31 December	**637**	**1,227**	**108**	**617**	**2,589**
Cost	1,270	3,199	340	617	**5,426**
Accumulated depreciation and impairment	-633	-1,972	-232		**-2,837**
Carrying amount at 31 December	**637**	**1,227**	**108**	**617**	**2,589**

2013	Land and buildings	Plant and equipment	Other operating assets	Assets under construction	Total
Carrying amount at 1 January	505	1,017	76	320	1,918
Acquired through acquisition	7	8	6		21
Additions	24	81	16	386	507
Disposals		-4	-2		-6
Currency translation differences	-11	-32	-2	-1	-46
Transfers	33	106	45	-187	-3
Transfer to assets held for sale	-2				-2
Depreciation	-38	-127	-23		-188
Impairment	-2	-15	-1		-18
Carrying amount at 31 December	516	1,034	115	518	2,183
Cost	1,126	2,960	352	518	4,956
Accumulated depreciation and impairment	-610	-1,926	-237		-2,773
Carrying amount at 31 December	516	1,034	115	518	2,183

The change due to ‘Acquired through acquisition’ concerns EUR 10 million in property, plant and equipment acquired from Olam Ivoire Sarl (2013: EUR 21 million property, plant and equipment acquired from Zijerveld and Den Hollander Food).

EUR 6 million of the impairments relates to a write-down to the estimated realisable value of buildings and equipment as a result of the intended closure of a production facility in Belgium as part of the Reshape reorganisation programme. As a result of a fire equipment, plant and buildings at the FrieslandCampina Cheese production facility in Gerkesklooster were impaired by an amount of EUR 4 million. The remaining portion of the impairments relates mainly to impairments of buildings and equipment at other facilities. In 2013 the impairment related mainly to the write-down to the estimated realisable value of buildings and equipment as a result of the closing of two production facilities in the Netherlands. Impairments and reversed impairments are classified as other operating expenses in the income statement.

The carrying amount of property, plant and equipment for which financial lease agreements apply was EUR 13 million (2013: EUR 15 million).

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 159 million (2013: EUR 243 million).

Additions include capitalised borrowing costs amounting to EUR 10 million (2013: EUR 7 million). The applicable interest rate is 3.5% (2013: 4.0%).

12 Intangible assets

					2014
	Goodwill	Trademarks, customer relations and patents	Software	Other intangible assets and intangible assets under construction	**Total**
Carrying amount at 1 January	876	180	44	82	**1,182**
Acquired through acquisition	5	16			**21**
Additions arising from internal development				50	**50**
Additions			2		**2**
Transfers			34	-33	**1**
Currency translation differences	17	16			**33**
Amortisation		-11	-16	-2	**-29**
Impairment				-2	**-2**
Carrying amount at 31 December	**898**	**201**	**64**	**95**	**1,258**
Cost	1,102	247	184	109	**1,642**
Accumulated amortisation and impairment	-204	-46	-120	-14	**-384**
Carrying amount at 31 December	**898**	**201**	**64**	**95**	**1,258**

					2013
	Goodwill	Trademarks, customer relations and patents	Software	Other intangible assets and intangible assets under construction	Total
Carrying amount at 1 January	1,046	158	32	54	1,290
Acquired through acquisition	25	47		1	73
Additions arising from internal development				35	35
Additions			12	5	17
Transfers			13	-10	3
Currency translation differences	-20	-16			-36
Amortisation		-9	-13	-3	-25
Impairment	-200				-200
Change in value in connection with put-option	25				25
Carrying amount at 31 December	876	180	44	82	1,182
Cost	1,080	199	160	94	1,533
Accumulated amortisation and impairment	-204	-19	-116	-12	-351
Carrying amount at 31 December	876	180	44	82	1,182

The change in 'Acquired through acquisition' concerns the intangible non-current assets acquired from Olam Ivoire Sarl, DEK Srl and Orange Srl of EUR 16 million. The EUR 5 million goodwill 'Acquired through acquisition' concerns the Olam-related acquisition, which is allocated to the business group Consumer Products EMEA.

In 2010 FrieslandCampina started a worldwide ICT-standardisation programme. During 2014 an amount of EUR 45 million (2013: EUR 35 million) was capitalised for this programme. The portion of this amount related to assets under construction at the end of 2014 is recognised in the category ‘Other intangible assets and intangible assets under construction’. In 2012 the system went into service in the first group of operating companies and afterwards this implementation was rolled-out to a number of other operating companies. The roll-out to the remaining operating companies will take several years and is expected to be completed in 2018.

Impairment testing for groups of cash flow-generating units containing goodwill

FrieslandCampina carries out the goodwill impairment test during the second quarter of each year and at another time if there is an indication for impairment. Goodwill is monitored and tested at the business group level, which comprises a group of cash flow-generating units at the time the goodwill impairment test is carried out. The goodwill impairment test calculates the recoverable amount - the value in use - per business group.

The table below shows the allocation of the goodwill to the business groups.

	2014	2013
Consumer Products EMEA	559	554
Consumer Products Asia	151	134
Cheese, Butter & Milkpowder	25	25
Ingredients	163	163
	898	876

The principle assumptions applied for the calculation of the value in use per business group are listed in the table below.

		%		%		%
	Growth rate terminal value		Budgeted EBITDA in relation to revenue		Pre-tax discount rate	
	2014	2013	**2014**	2013	**2014**	2013
Consumer Products EMEA	3.5	3.5	7-9	6-7	11	14
Consumer Products Asia	3.0	3.5	16-21	14-18	9	11
Cheese, Butter & Milkpowder	1.5	2.0	5	4-5	10	11
Ingredients	1.5	2.0	9-17	14-23	9	10

In October 2013 the management structure was amended. In the previous year the goodwill impairment test was carried out based on the old management structure. The comparable figures for the major assumptions in the table above deviate from the 2013 financial statements in order to provide an insight into what the most important assumptions for Consumer Products EMEA and Consumer Products Asia would have been if the management structure had already been amended at the time of the 2013 impairment test.

The budgeted EBITDA margins are based on past experience, specific expectations for the near future and market-based growth percentages. The discount rate for each business group is based on information that can be verified in the market and is before tax.

The values in use of the business groups were determined on the basis of the 2014 budget and the long-term plans until 2018. A cooperative surcharge for the cooperative role the Cheese, Butter & Milkpowder business group plays in processing member milk, and in particular fat, was also taken into account. For the period after 2018 a growth percentage equal to the forecast long-term inflation percentages was used in 2014, as is best practice in the market.

Sensitivity to changes in assumptions

The outcomes of the goodwill impairment tests of the business groups Consumer Products EMEA, Consumer Products Asia, Cheese, Butter & Milkpowder and Ingredients show that the values in use exceed the carrying amounts. In these cases a reasonable adjustment of the assumptions did not result in values in use below the carrying values of these business groups.

13 Investments in joint ventures and associates

FrieslandCampina holds interests in a number of joint ventures and associates that individually do not have a material impact. The following table analyses, in aggregate, the carrying amount and share of total comprehensive income of these joint ventures and associates.

	2014		2013	
	Joint Ventures	Associates	Joint Ventures	Associates
Carrying amount	86	36	83	33
Share of:				
Profit or loss from continuing operations	8	5	7	1
Other comprehensive income	1		-3	
Total comprehensive income	**9**	**5**	4	1

The most material joint venture is the 50% interest in Betagen Holding Ltd. This interest is accounted for using the equity method. FrieslandCampina's interest amounts to EUR 68 million (2013: EUR 66 million), which comprises an interest of EUR 38 million (2013: EUR 36 million) in the net assets and EUR 30 million (2013: EUR 30 million) goodwill. The share in the 2014 profit of Betagen Holding Ltd. amounted to EUR 5 million (2013: EUR 6 million).

FrieslandCampina holds an 82.33% interest in Dutch Dairy Ingredients B.V. and a 74.53% interest in Het Kaasmerk B.V. In both cases FrieslandCampina holds less than half of the voting rights and, as a result, has no management control over these entities. These interests are, therefore, accounted for using the equity method.

For a summary of the most important joint ventures and associates see page 134.

14 Derivatives

See Note 30 for the objectives, guidelines and policies related to the use of derivatives and other financial instruments in FrieslandCampina's activities.

Hedging derivatives

In the statement of financial position the hedging derivatives are included in current and non-current other financial assets and liabilities.

Hedging activities				**2014**
	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps (carried as assets)	2017 and 2020	21		202
Cross currency swaps (carried as liabilities)	after 2017		28	373
Interest rate swaps	2015		2	100
Total cash flow hedges subject to hedge accounting		**21**	**30**	
Cross currency swaps	2015 and 2017		3	37
Currency derivatives (carried as assets)	2015	2		63
Currency derivatives (carried as liabilities)	2015		5	211
Derivatives not subject to hedge accounting		**2**	**8**	
Total derivatives		**23**	**38**	
Classified as current		2	7	
Classified as non-current		21	31	

Hedging activities				2013
	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps (carried as assets)	2017 and 2020	3		143
Cross currency swaps (carried as liabilities)	after 2017		62	364
Interest rate swaps	2014-2015		6	200
Total cash flow hedges subject to hedge accounting		3	68	
Cross currency swaps	2014	1		17
Currency derivatives (carried as assets)	2014	3		129
Currency derivatives (carried as liabilities)	2014		1	75
Derivatives not subject to hedge accounting		4	1	
Total derivatives		7	69	
Classified as current		4	2	
Classified as non-current		3	67	

Cash flow hedges
Cross-currency interest rate swaps have been contracted for borrowings of USD 696 million, as a result of which the USD repayment and interest liabilities to institutional investors have been converted into EUR liabilities.

The interest rate swaps have been contracted to convert the floating-interest liabilities on the interest-bearing borrowings into fixed interest liabilities.

The hedges to which hedge accounting is applied meet the documentation requirements for hedge accounting under IAS 39 and are tested for effectiveness prior to and per reporting date. These hedges proved to be effective as a result of which, at 31 December 2014, EUR -33 million (2013: -24 million) was recognised in equity as cash flow hedge reserve. Of this sum, EUR -32 (2013: EUR -20 million) million relates to the cross currency swaps and EUR -1 million (2013: EUR -4 million) to the interest rate swaps.

Derivatives not subject to hedge accounting
Derivatives not subject to hedge accounting relate to expected sales and purchases, loans and outstanding receivables and payables. The changes in the value of these derivatives are largely offset by value changes in receivables and payables that have an opposite effect. FrieslandCampina's policy is, and has been throughout the year under review, that no trading takes place for speculative purposes.

Put-option liabilities
In the consolidated statement of financial position the put-option liabilities are recognised under other financial liabilities.

	2014	2013
Current liabilities in connection with put-option	7	7
Non-current liabilities in connection with put-option	1	

15 Other financial assets

	2014	2013
Loans issued	36	39
Securities	35	30
Derivatives	21	3
Non-current receivables	6	4
	98	76

EUR 17 million of the loans concerns a loan to the Great Ocean Ingredients Pty. Ltd. joint venture (2013: EUR 19 million). The remainder concerns loans to third parties. The average interest rate on the loans at the end of 2014 was 2.5% (2013: 2.8%). The maturity date of EUR 18 million of the loans issued is after 2019. All the loans issued are still within their terms.

In 2014 the 7.5% interest in Synlait Milk Ltd. acquired in 2013 was increased to a 9.99% interest. Synlait Milk Ltd. is a New Zealand dairy company that is listed on the New Zealand stock exchange ("NZX"). On 31 December 2014 this interest was valued at EUR 30 million (2013: EUR 26 million), which is included under securities.

See Note 14 for information regarding derivatives.

16 Inventories

	2014	2013
Raw materials and consumables used	385	383
Finished goods and commodities	879	920
	1,264	1,303

EUR 196 million (2013: EUR 287 million) of the inventories is valued at the lower market value.

In 2014 the write-down of inventories to net realisable value amounted to EUR 28 million (2013: EUR 30 million). The write-down is included in the raw materials and consumables used.

No inventories are pledged as security for liabilities.

17 Trade and other receivables

	2014	2013
Trade receivables	1,121	1,163
Receivables from affiliated company		12
Other receivables	94	63
Provision for doubtful debts	-19	-14
	1,196	1,224
Receivables related to tax (excluding income tax) and social security contributions	70	67
Prepayments	54	44
	1,320	1,335

Provision for doubtful debts		
At 1 January	-14	-15
Acquired through acquisition		-3
Charged to the income statement	-5	-1
Released to the income statement		1
Trade receivables written off	1	4
Received on already written off trade receivables	-1	
At 31 December	**-19**	-14

Maturity schedule trade and other receivables	Gross	Write-down	Net
Within payment term	1,032	-4	**1,028**
Overdue by less than 3 months	122	-1	**121**
Overdue by 3 - 6 months	16	-3	**13**
Overdue by more than 6 months	45	-11	**34**
	1,215	**-19**	**1,196**

The additions and releases of the provision for doubtful debts have been included in other operating expenses (Note 8). Amounts charged to the provisions account are written-off, when it is not expected that these are collectable.

Trade and other receivables are non-interest-bearing and generally fall due between 10 and 90 days.

In various countries FrieslandCampina has taken out credit insurance to mitigate the credit risk related to customers. At the end of 2014 this insured position amounted to EUR 393 million (2013: EUR 318 million).

18 Cash and cash equivalents

	2014	2013
Deposits	198	157
Cash and cash equivalents	424	403
	622	560

Cash and cash equivalents are at the free disposal of the Company.

19 Equity

Issued capital
The number of issued shares at both the beginning and the end of the financial year was 3,702,777. EUR 370 million has been paid in on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are held by Zuivelcoöperatie FrieslandCampina U.A.

Share premium reserve
The share premium comprises primarily a capital contribution of EUR 110 million by Zuivelcoöperatie FrieslandCampina U.A. in 2009.

Perpetual notes
On 3 June 2013 FrieslandCampina repaid its 7.125% perpetual cumulative subordinated notes with a nominal amount of EUR 125 million from 2003, including the outstanding interest.

Member bonds
The member bonds comprise registered fixed member bonds and unrestricted member bonds. Registered fixed member bonds cannot be traded. On the termination of business activities and the termination of the membership the registered fixed member bonds are automatically converted into unrestricted member bonds. Legal bodies that are members of FrieslandCampina can also convert registered fixed member bonds into unrestricted member bonds on the transfer of business between members. Unrestricted member bonds can be held interest-bearing and can be traded between member bond holders.

Member bonds have been issued to Zuivelcoöperatie FrieslandCampina U.A. and its members. The member bonds are perpetual and have no maturity date. The interest charge for the member bonds is the six month Euribor plus 3.25% as at 1 June and 1 December of the year in question. The bonds are subordinated to the claims of all other existing and future creditors to the extent that these are not subordinated. Member dairy farmers receive a portion of their compensation for the supply of milk during the financial year in the form of fixed member bonds. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not fixed or distributed any performance premium in the 12 months prior to the annual coupon date. Deferred interest becomes payable on the date on which a performance premium is next distributed. Member bonds are classified as equity.

From the profit over the 2014 financial year, EUR 40 million (2013: 34 million) is attributed to the holders of the member bonds as an interest payment. In addition, in 2014 EUR 101 million (2013: 114 million) is attributed to member dairy farmers through the issue of fixed member bonds as part of the compensation for milk supplied during 2014.

Cooperative loan
As of 30 December 2013 the EUR 290 million subordinated loan advanced to Royal FrieslandCampina N.V. by Zuivelcoöperatie FrieslandCampina U.A. in 2009 has been converted into a perpetual subordinated loan. The interest rate applicable for the EUR 290 million perpetual subordinated loan is the six month Euribor plus 3.25%, as at 1 June and 1 December of the year in question. The loan from the Cooperative is subordinated by the claims from all other existing and future creditors to the extent that these are not subordinated. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not fixed or distributed any performance premium in the 12 months prior to the annual interest payment date. Deferrered interest becomes payable on the date on which a performance premium is next distributed. The perpetual subordinated loan from the Cooperative is classified as equity.

EUR 10 million of the profit from the 2014 financial year is attributed to the provider of the loan from the Cooperative as an interest payment.

Other reserves
Other reserves comprises the fair value reserve, the cash flow hedge reserve and the currency translation reserve.

The fair value reserve concerns the changes in fair value of financial assets available-for-sale.

The cash flow hedge reserve concerns changes in the fair value of interest rate swaps, cross currency swaps and forward currency contracts to the extent they classify as highly effective cash flow hedges.

The currency translation reserve concerns accrued gains and losses on foreign currency translation at subsidiaries, and currency valuation gains and losses on loans of a permanent nature issued to subsidiaries.

Retained earnings
Retained earnings comprise the balance of accrued profits that have not been distributed to the shareholder. Pursuant to the Articles of Association a decision to distribute a dividend may be taken if and to the extent that equity exceeds the issued share capital plus the statutory reserves.

The reserve policy that became effective on 1 January 2014 stipulates that 45% of the profit of the year is added to the Company's equity. As a component of the payment for milk supplied in 2014 35% of the profit is paid-out in cash to the member dairy farmers as performance premium and 20% is paid-out to the member dairy farmers in the form of fixed member bonds. The reserve policy is laid down in the milk price regulation and is revised every three years. The current reserve policy is applicable for the period 2014 to 2016. After the financial statements have been approved by the General Meeting of Shareholders the issue of member bonds is determined definitively. The issue of member bonds is already recognised in the financial statements.

Non-controlling interests
Non-controlling interests concerns the share in equity that is not attributed to FrieslandCampina.

FrieslandCampina's direct holding in DMV-Fonterra Excipients GmbH & Co is 50%, but FrieslandCampina does have control over the entity. FrieslandCampina has a decisive influence over the entity's policies for several reasons including the appointment of the CEO. The DFE put-option expired per June 2013. As a result the '(anticipated) acquisition-method' was terminated. FrieslandCampina retains control over DMV-Fonterra Excipients GmbH & Co. KG after the expiry of this put-option, in 2013 this transaction was accounted for as a transaction between shareholders. As a result the revalued liability of EUR 183 million related to the put-option was charged to the retained earnings and the non-controlling interests in equity.

FrieslandCampina holds a 49%-interest in Sahnemolkerei Hubert Wiesehoff GmbH, but has a casting vote on the Board of Directors and, as a result, a decisive influence. In addition, FrieslandCampina has agreed a put-option liability. Furthermore FrieslandCampina has an 80% interest in Orange Srl. in which FrieslandCampina has also agreed a put-option liability. As a result of the application of the '(anticipated) acquisition-method' both interest are 100% involved in the consolidation without a non-controlling interest being recognised in the comprehensive statement of financial position and the income statement. Any dividends paid out to holders of the put-option are recognised under finance expenses. The put-option liabilities are accounted for in the other financial liabilities.

The table below summarises the financial information of each of the subsidiaries in which FrieslandCampina has a non-controlling interest, based on FrieslandCampina's accounting policy, before any intra-group eliminations and on the basis of the latest publicly available information.

	FrieslandCampina WAMCO Nigeria Plc	DMV-Fonterra Excipients GmbH & Co. KG [1]	Dutch Lady Milk Industries Berhad	Other	**2014** Total
Non-controlling interest percentage	45.42%	50.00%	49.04%		
Non-current assets	79	18	20		
Current assets	145	86	61		
Non-current liabilities	-25	-12	-2		
Current liabilities	-155	-27	-43		
Net assets	**44**	**65**	**36**		
Carrying amount of non-controlling interest	20	119	18	79	**236**
Revenue	577		230		
Profit	49	49	25		
Other comprehensive income	-3	-3	3		
Total comprehensive income	**46**	**46**	**28**		
Profit allocated to non-controlling interest	22	13	12	23	**70**
Other comprehensive income allocated to non-controlling interest	-1	-2	1	5	**3**
Dividend paid-out to non-controlling interest	20	24	16	3	**63**
Cash flow from operating activities	24		31		
Cash flow from investing activities	-17		-3		
Cash flow from financing activities	-43		-34		
Net cash flows	**-36**		**-6**		

[1] The 2014 figures for DFE are not yet publicly available and therefore the 2013 figures have been disclosed.

The percentages stated in the table above indicate the direct interest Royal FrieslandCampina NV holds in these entities. For all the entities included in the table the indirect interest is the same as the direct interest, with the exception of DMV-Fonterra Excipients GmbH & Co KG. FrieslandCampina's indirect interest in DFE is lower than the direct interest as a result of intermediate holding companies in which FrieslandCampina does not hold a 100% interest. The carrying amounts, total comprehensive income and dividends allocated to non-controlling interest in the table above is indicated based on the indirect non-controlling interest.

	FrieslandCampina WAMCO Nigeria Plc	DMV-Fonterra Excipients GmbH & Co. KG [1]	Dutch Lady Milk Industries Berhad	Other	2013 **Total**
Non-controlling interest percentage	45.42%	50.00%	49.04%		
Non-current assets	65	18	17		
Current assets	159	86	68		
Non-current liabilities	-18	-12	-1		
Current liabilities	-166	-27	-42		
Net assets	40	65	42		
Carrying amount of non-controlling interest	18	119	21	68	226
Revenue	570		233		
Profit	62	49	33		
Other comprehensive income	-3	-3	-5		
Total comprehensive income	59	46	28		
Profit allocated to non-controlling interest	28	13	16	21	78
Other comprehensive income allocated to non-controlling interest	-1	-2	-2	-5	-10
Dividend paid-out to non-controlling interest	40	24	20	14	98
Cash flows from operating activities	89		44		
Cash flows from investing activities	-21		-3		
Cash flows from financing activities	-89		-40		
Net cash flows	-21		1		

[1] Since the expiry of the DFE put-option per June 2013, DFE has been treated as a non-controlling interest. Consequently, in 2013 the profit and other comprehensive income allocated to non-controlling interests in respect of DMV-Fonterra Excipients GmbH & Co KG reflects the period June to December 2013. The revenue and net cash flows of DFE are not publicly available and therefore these figures have not been disclosed.

20 Employee benefits

Pension situation – Dutch employees covered by the Collective Labour Agreement for the dairy sector until 2015

A large portion of FrieslandCampina's defined benefit obligations related to defined benefit plans, at the end of 2014 92%, are in respect of two, virtually identical, pension plans for Dutch employees that are based on the Collective Labour Agreement for the dairy sector. The collective agreement offers employees retirement and spouse pension based on an average pay system and has a retirement age of 67 (up to 2014: 65). Each year the accrued benefits of employees are increased by the general wage inflation in the dairy sector, with a maximum of 3%. The accrued benefits of (deferred) pensioners are annually increased by a maximum of the "consumer price index based for all households". These pension increases for (deferred) pensioners are conditional.

The two pension plans are administered by different pension carriers. The pension plan for former Campina employees is executed in a company pension fund. The pension plan for former Friesland Foods employees and new FrieslandCampina employees after the merger (1 January 2009) is administered by an insurance company in a segregated investment fund.

These pension plans will change on 1 January 2015. The changes are important because the measurement of the defined benefit obligations must take future developments into account.

Pension situation - Dutch employees covered by the Collective Labour Agreement for the dairy sector as of 2015
At the end of July 2014, FrieslandCampina, as part of the Dutch Dairy Organisation (NZO) reached agreement with the trade unions and the Central Works Council regarding a new pension plan, effective as of 1 January 2015. From that moment on all Dutch employees who are covered by the Collective Labour Agreement for the dairy sector will accrue a pension in a defined contribution plan as specified below.

Annual pensionable salary	Pension plan for Dutch employees covered by the Collective Labour Agreement for the dairy sector as from 1 January 2015
Up to € 61,653	Collective defined contribution plan based on a fixed ontribution and executed by the Industry wide Pension Fund for the Dairy Sector.
Between € 61,653 and € 100,000	Individual defined contribution plan administered by a premium pension institute.
Above € 100,000	A net pension savings plan administered by the same premium pension institute.

In connection with the new pension situation, since 1 January 2015, the accrual of pension in the current pension plans described above has ceased. With respect to the pension plan for former Campina employees at the company pension fund, FrieslandCampina has – based on the funding agreement after termination of future accrual as from 2015 – no other liability than to agree on a final settlement of future administration and execution costs. FrieslandCampina expects to reach an agreement with the pension fund board on this in 2015, after which the pension plan will be settled in full. At that point, the defined benefit obligation and value of plan assets (as per year-end 2014 both EUR 1,414 million) will be released from the balance sheet. This will not affect the income statement because the current, and at the moment of settlement expected, net defined benefit liability (the defined benefit obligation minus the fair value of plan assets) amounts to nil.

The transition to defined contribution plans and the termination of accrual in the current pension plans result in a one-time credit of EUR 131 million in the 2014 income statement.

The pension plan for pension benefits accrued until 2015 by former Friesland Foods employees and new FrieslandCampina employees remains a defined benefit plan. At the end of 2014 this plan accounted for 52% of the total defined benefit obligation and is explained in more detail below.

	Pension plan entitlements accrued until 2015 by former Friesland Foods employees and new FrieslandCampina employees
Plan characteristics	From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants will be annually increased during the term of the five-year collective agreement with a fixed rate of 1.75%, for as long as the employment continues. Conditional indexation applies to (deferred) pensioners.
Pension carrier	An insurance company, in a segregated investment fund via a guarantee contract.

Funding agreements	Each year FrieslandCampina pays a premium, calculated based on market value, for the indexation for active participants. In the four years from 2015 to 2018 FrieslandCampina will pay a fixed amount of EUR 16 million per annum into the segregated fund for indexation for (deferred) pensioners. After this four year period, FrieslandCampina will not be liable for any further contributions. Finally, if the funding level in the segregated investment fund – based on contract value – is below 110% at year-end and remains below this rate for 18 months, FrieslandCampina is required to pay a single cash contribution to get the funding level up to 110% again. At the end of 2014 the funding level was 123.2% (2013: 114.8%).
Supervision and governance	The insurer is responsible to hold sufficient means to pay out all accrued benefits. This is supervised by the DNB (Dutch National Bank). The pension premium is calculated based on terms agreed in the insurance contract. FrieslandCampina and the insurance company together agree on the investment policy for the insurance contract.
Participants	Approximately 66% of the participants are active, 22% are deferred pensioners and 12% are pensioners. The average duration of the pension obligations is around 21 years.
Most significant risks	The most significant risk is that the funding level at the end of the year drops below 110%. If this situation continues for more than 18 months, FrieslandCampina is obliged to pay an additional amount sufficient to raise the funding level to 110% again. As the pension liabilities in the contract are calculated using a fixed interest rate, the movements in the value of plan assets have a significant impact on the funding level.

The pension plan for pension benefits accrued until 2015 by former Campina employees also remains a defined benefit plan. At the end of 2014 this plan accounted for 40% of the total defined benefit obligation. All pension benefits for active participants accrued up to 2015 in this plan for former Campina employees will also be annually increased with a fixed rate of 1.75% during the five year period of the Collective Labour Agreement and only as long as they remain to be employed at FrieslandCampina. This 1.75% indexation plan, with a fixed increase for indexation after retirement, will be insured at an insurance company in a guarantee contract without profit sharing.

Other plans for Dutch employees covered by the Collective Labour Agreement for the dairy sector

In addition to the plan explained above, the Dutch employees who were employed at the end of 2005 are also entitled to a supplementary lump-sum contribution, that has been determined on an individual basis, if they retire from active employment. This conditional lump-sum amount will be awarded in 2021, or on retirement if this is earlier. At that moment FrieslandCampina will purchase for these lump-sum amounts pension benefits at the then prevailing tariffs. There are no changes to this plan which at the end of 2014 accounted for 2% of the total defined benefit obligation.

Dutch employees covered by the Collective Labour Agreement for Cheese Wholesale

FrieslandCampina employees who are covered by the Collective Labour Agreement for Cheese Wholesale participate in the Industry wide pension plan for the agricultural and food trade (AVH). This plan qualified as a defined contribution plan.

Foreign employees

In respect of its foreign activities FrieslandCampina operates a number of, primarily defined contribution, pension plans. The exception is Germany with primarily unfunded pension plans based on salary, length of service and fixed amounts that account for 3% of FrieslandCampina's total defined benefit obligation. The accrued benefits that have been accrued are increased each year by a maximum of the price inflation. This is a conditional entitlement.

Due to its size, the remainder of this note is based explicitly on FrieslandCampina's Dutch pension plans. The same method for calculating the discount rate and inflation rate assumptions is used for the German pension plans.

Assumptions

The tables below summarise the assumptions used when calculating the (movements in the) defined benefit obligation, the plan assets and the relevant components of the defined benefit costs as recognised in the consolidated statement of financial position and consolidated income statement.

Assumptions [1]	**2014**	2013
	%	%
Discount rate	1.6 - 2.0	3.2 - 3.5
Wage inflation	n.a.	2.5
Price inflation	2.0	2.0
Indexation		
- active	1.75 - 2.0	2.5
- (deferred) pensioners	0.0 - 2.0	0.0 - 1.8
Life expectancy	in years	in years
- 65 year old man / woman at end of year	19.9 / 22.9	20.4 / 22.9
- 65 year old man / woman in 20 years	22.5 / 25.2	22.4 / 24.0

[1] The percentages shown concern the Dutch pension plans mentioned above (excluding the other plans), which represent 92% (2013: 92%) of the defined benefit obligation and 99% (2013: 99%) of the fair value of the plan assets respectively.

The discount rate is based on the yield on high quality corporate bonds and reflects the average term of the defined benefit obligation for each plan individually.

Movement in net defined benefit liability

	Defined benefit obligation		Fair value of plan assets		Net defined benefit liability	
	2014	2013	**2014**	2013	**2014**	2013
At 1 January	**2,963**	2,841	**-2,339**	-2,243	**624**	598
Included in the income statement						
Operating expenses:						
Current service costs	81	72			81	72
Pension plan amendment	-131	-29			-131	-29
Interest expense or income	100	99	-84	-81	16	18
Administration costs			3	3	3	3
Total	**50**	142	**-81**	-78	**-31**	64
Recognised in equity:						
Remeasurement gain or loss due to:						
Return on plan assets, excluding the interest income, and adjusted guaranteed value			-607	-36	-607	-36
Changes in financial assumptions	849	81			849	81
Changes in demographic assumptions	-27	-1			-27	-1
Experience adjustments	-3	-1			-3	-1
Total remeasurement gain or loss	**819**	79	**-607**	-36	**212**	43
Currency translation differences	5	-8	-2	2	3	-6
Total	**824**	71	**-609**	-34	**215**	37
Other						
Contributions paid by the employer to the plan			-150	-77	-150	-77
Benefits paid	-94	-93	94	93		
Reclassification		2				2
Total	**-94**	-91	**-56**	16	**-150**	-75
At 31 December	**3,743**	2,963	**-3,085**	-2,339	**658**	624
Classification						
Non-current assets					5	6
Non-current liabilities					663	630

At the end of 2014, EUR 283 million of the EUR 3,743 million defined benefit obligation had not yet been funded (2013: EUR 236 million). The contributions paid by the employer to the plan amounting to EUR 150 million are the premiums paid by FrieslandCampina in 2014, of which EUR 79 million relates to 2013.

Defined benefits costs or income recognised through the income statement	2014	2013
Current service costs	-81	-72
Pension plan amendment	131	29
Interest expense or income	-16	-18
Administration costs	-3	-3
Defined benefit cost or income recognised through the income statement	**31**	-64
Benefit cost for defined contribution plans	-25	-23
Employees' share in pension costs	6	5
Benefit cost or income recognised through the income statement	**12**	-82

The changes in the pension situation, as described above, consisting of termination of pension accrual in the current pension plans and transition to defined contribution plans for future accrual, lead to a one-time credit of EUR 131 million that is recognised in the income statement in 2014. The pension plan amendment in 2013 concerns the increase in pensionable age from 65 to 67 for benefit accruals.

In 2015 FrieslandCampina expects to contribute EUR 133 million towards its defined benefit plans, of which EUR 75 million relates to 2014. Of the remainder, a significant part is for the plans that provide Dutch employees indexation on the benefits accrued up to 2015. In 2015 FrieslandCampina expects to contribute EUR 79 million towards the defined contribution plans, primarily related to the new collective and individual contribution plans that apply for Dutch employees as from 1 January 2015.

Disaggregation of the fair value of plan assets into asset classes		2014		2013
	%	%	%	%
	Company pension fund	Insurance contract	Company pension fund	Insurance contract
Shares				
- North America	8		8	
- Europe	3		4	
- Far East including Japan	2		2	
- Emerging Markets	2		4	
- Other	1		3	
Fixed income securities				
- Investment grade (at least BBB rating)	28		29	
- Non-investment grade (BB rating or lower)	2		1	
Guaranteed value of insurance contract		53		48
Total	**46**	**53**	51	48

At the end of 2014 the investments in the company pension fund and the guaranteed value of the insurance contract amounted to 46% and 53% of the total investments respectively. Of the investments in the company pension fund EUR 1 million (2013: EUR 6 million) does not have a quoted market price. In addition, approximately EUR 25 million is invested in Zuivelcoöperatie FrieslandCampina U.A. subordinated bonds. For the company pension fund, 51% of the interest rate risk related to the obligation is hedged by means of a liability-matching portfolio, that mainly consists of holdings in government bonds. The currency risk related to foreign debt and equity instruments is hedged for 70% to 100%. The value of the plan assets in the insurance contract is based on its guaranteed value. The profit sharing in this contract is, however, determined based on the investments in the segregated investment fund. Approximately 52% of these investments are fixed-income securities, 42% are shares and 6% are other investments. Because the insurer determines the pension obligation on a fixed interest rate, the use of interest rate hedging instruments is limited. The remaining plan assets (1% of the total amount) are related to foreign pension plans and consists of insurance contracts and various investments.

Sensitivity analysis

The table below shows the impact of a change in a key actuarial assumption on the present value of the defined benefit obligation in respect of the Dutch pension plans.

Effect on the defined obligation at 31 December	**2014**		2013	
	Increase	Decrease	Increase	Decrease
Change of 0.25% to discount rate	-161	173	-116	125
Change of 0.25% to salary inflation and indexation rate active participants	n/a	n/a	33	-31
Change of 0.25% to indexation rate (deferred) pensioners	134	-126	89	-84
Change of 1 year to life expectancy	142	-142	91	-90

Changes in several assumptions could result in cross-effects that have additional implications for the individual securities. In addition, the impact on the net defined benefit liability is usually smaller because the effect shown in the sensitivity analyses is partly offset by a change in the guaranteed value of the insurance contract or a change in the indexation rate assumption for the company pension fund.

21 Deferred tax assets and liabilities

						2014
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	**Total**
At 1 January	-53	49	117	64	45	**222**
Acquired through acquisition		-3				**-3**
Recognised through the income statement	-10	9	-37	20	-3	**-21**
Recognised in equity			51	-3	10	**58**
Currency translation differences	-1	-5		6		
Other	1			1	-2	
At 31 December	**-63**	**50**	**131**	**88**	**50**	**256**

Deferred tax assets and liabilities relate to the following items of the statement of financial position:

	Assets	Liabilities	**Net**
Property, plant and equipment	2	65	**-63**
Intangible assets	114	64	**50**
Employee benefits	134	3	**131**
Inventories, trade receivables, derivatives, accounts payable and provisions	94	6	**88**
Unused tax losses and facilities	50		**50**
Netting	-30	-30	
Net deferred tax asset	**364**	**108**	**256**

						2013
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	Total
At 1 January	-60	33	116	41	37	167
Acquired through acquisition		-12				-12
Recognised through the income statement	4	22	-8	16		34
Recognised in equity			10	9	8	27
Currency translation differences	3	6	-1	-3		5
Other				1		1
At 31 December	-53	49	117	64	45	222

Deferred tax assets and liabilities relate to the following items of the statement of financial position:

	Assets	Liabilities	Net
Property, plant and equipment	3	56	-53
Intangible assets	108	59	49
Employee benefits	120	3	117
Inventories, trade receivables, derivatives, accounts payable and provisions	69	5	64
Unused tax losses and facilities	45		45
Netting	-25	-25	
Net deferred tax asset	320	98	222

On the basis of its long-term plans, FrieslandCampina expects to be able to offset unused tax losses and facilities against future profits.
Deferred tax assets are not recognised if it is not probable that there will be future taxable profits within the entities against which the losses can be utilised.

Deferred tax assets have not been recognised in respect of the following losses and facilities:

	2014	2013
Unrecognised tax losses	346	334
Unrecognised facilities	1	1
	347	335

EUR 23 million of the unrecognised tax losses expire between 5 and 10 years. The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules.

22 Provisions

			2014			2013
	Restructuring	Other provisions	**Total**	Restructuring	Other provisions	Total
At 1 January	33	14	**47**	41	24	65
Additions charged to the income statement	17	9	**26**	17	7	24
Released to the income statement	-11	-5	**-16**	-5	-7	-12
Utilised	-10	-6	**-16**	-20	-10	-30
At 31 December	**29**	**12**	**41**	**33**	**14**	**47**
Non-current provisions	1	5	**6**	17	7	24
Current provisions	28	7	**35**	16	7	23
	29	**12**	**41**	33	14	47

Restructuring provisions

In 2013 FrieslandCampina started a new long-term reorganisation programme, called Reshape, in the business group Consumer Products EMEA. The primary focus of Reshape is to reduce complexity, improve efficiency and commercial effectiveness, and release the means to invest in FrieslandCampina's brands, technology and innovation. In 2013 a provision was recognised for phase 1 of Reshape. Phase 2 of Reshape was announced in 2014 and a restructuring provision was recognised for this phase at the end of 2014. The provision comprises primarily redundancy payments and related costs as a consequence of the closure of production facilities in the Netherlands (phase 1) and Belgium (phase 2). From the amount of EUR 11 million released to the income statement in 2014, EUR 6 million concerned a release from the provision for Phase 1 of Reshape. This release was primarily due to the fact that more employees could be re-deployed than was anticipated at the end of 2013.

In addition, in previous years FrieslandCampina recognised various provisions for the reorganisation of production and packing facilities. In 2014 the withdrawals are mainly related to the provision for the Consumer Products EMEA business group's facilities in Germany.

The restructuring provisions will result in future cash outflows. The provisions are recognised at nominal value because their present value is not materially different.

Other provisions
These provisions relate primarily to received claims and other provisions and are recognised for obligations of which the extent or likelihood is uncertain at the statement of financial position date. These provisions are stated at nominal value as their present value is not materially different. Other provisions includes an amount of EUR 2 million (2013: EUR 2 million) for onerous contracts.

23 Interest-bearing borrowings

	2014	2013 [1]
Amounts owed to syndicate of credit institutions	695	245
Amounts owed to institutional investors	600	531
Finance lease liabilities	12	11
Amounts owed to credit institutions	1	12
Other interest-bearing borrowings	33	36
	1,341	835

[1] The comparable figures for 2013 have been restated as described in the accounting policies (see page 81).

The terms and conditions of outstanding non-current loans are as follows:

Loan	Currency	Nominal interest rate	Year of maturity	Nominal amount 2014	Carrying amount 2014	Nominal amount 2013	Carrying amount 2013
Syndicate (variable interest)	EUR	0.9	2019	700	695	250	245
Private Placement (fixed interest)	USD/EUR	4.4	2017	117	117	107	107
Private Placement (fixed interest)	USD	5.7	2020	110	110	96	96
Private Placement (fixed interest)	USD	4.0	2022	66	66	58	58
Private Placement (fixed interest)	USD	4.2	2024	121	121	106	106
Private Placement (fixed interest)	USD	4.0	2027	186	186	164	164
Fonterra (variable interest)	EUR/NZD	2.6	2016-2025	27	27	29	29
Other				19	19	30	30
				1,346	**1,341**	840	835

Owed to syndicate of credit institutions
In the first half of 2014 FrieslandCampina agreed a new credit facility of EUR 1.5 billion. This committed credit facility has a term of 5 years and replaces the credit facility of EUR 1 billion that would expire in August 2015. The new credit facility ensures more flexibility in cash flow management and is being used for operational purposes. The Company now has a substantially larger amount at its disposal, with more favourable conditions. On 31 December 2014 EUR 700 million of the credit facility had been utilised (2013: EUR 490 million), all of which is recognised as non-current (2013: EUR 240 million current).

Borrowings from institutional investors (private placements)
In total FrieslandCampina took out private loans with institutional investors in the United States amounting to USD 696 million (2013: USD 696 million) and a private loan with a European investor amounting to EUR 25 million (2013: EUR 25 million).

Cross-currency swaps have been used to convert the USD repayment and interest obligations related to these borrowings into EUR obligations at fixed interest rates. The cross-currency swaps were entered into to hedge the cash flows. Cash flow hedging has been applied to them. The cross-currency swaps have been recognised at fair value. The portion of the gains and losses made on these hedge instruments regarded as effective is recognised directly in equity. The borrowings of USD 696 million (2013: USD 696 million) have been fixed by these swaps at EUR 532 million (2013: EUR 532 million).

On 31 December 2014 the total amount of borrowings from institutional investors (private placements) was classified as non-current (2013: EUR 531 million).

Financial lease liabilities

	2014			2013		
	Future minimum lease payments	Interest %	Present value of minimum lease payments	Future minimum lease payments	Interest %	Present value of minimum lease payments
Less than one year	3		3	4		4
Between 1 and 5 years	12		11	11		9
More than five years	2		1	3		2
	17	6.8	**15**	18	7.2	15

The lease installments payable includes EUR 10 million (present value EUR 8 million) for the agreement with a third party for ripening, storing and packaging cheese (2013: EUR 11 million). EUR 3 million (2013: EUR 4 million) of the present value of the minimum payments is current and recognised under current borrowings.

No security has been provided for current and non-current borrowings.

24 Other financial liabilities

	2014	2013
Derivatives	31	67
Contingent consideration	7	20
Put-option liability	1	
	39	87

The contingent consideration concerns a liability connected to the acquisition of Zijerveld en Den Hollander in 2013. The contingent consideration has been determined on the basis of the fair value as at 31 December 2014. The fair value adjustment is explained in Note 30.

For information regarding derivatives see Note 14.

25 Current borrowings

	2014	2013 [1]
Current portion of non-current interest-bearing borrowings	3	247
Current interest-bearing borrowings	161	66
Owed to member dairy farmers	40	49
Bank overdrafts	16	50
	220	412

[1] The comparable figures for 2013 have been restated as described in the accounting policies (see page 81).

At the end of 2014 an amount of EUR 107 million (2013: EUR 66 million) for Commercial Papers was recognised under current interest-bearing borrowings.

The obligations to member dairy farmers amounting to EUR 39 million (2013: EUR 49 million) concern three-year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers with the payment of a 1% interest penalty.

The average interest rate on current interest-bearing borrowings at the end of 2014 was 1.6% (2013: 1.3%).

26 Trade and other payables

	2014	2013
Owed to member dairy farmers	448	586
Trade creditors	1,324	1,176
Payables related to tax (excluding income tax) and social security contributions	50	32
Payables to affiliated company	42	
Other payables	443	451
	2,307	2,245

27 Commitments and contingencies

				2014
	2015	2016 - 2019	After 2019	Total
Guarantees to third parties	6	1	9	16
Operational lease commitments	41	104	47	192
Purchase commitments for non-current assets	153	6		159
Other commitments	38	34		72
	238	145	56	439

				2013
	2014	2015 - 2018	After 2018	Total
Guarantees to third parties	10	1	5	16
Operational lease commitments	43	92	32	167
Purchase commitments for non-current assets	210	33		243
Other commitments	39	57		96
	302	183	37	522

Call-option Frisian Flag Singapore

FrieslandCampina has granted the minority shareholder of Frisian Flag Singapore (Holdings) Pte. Ltd. a call-option whereby this shareholder has the right, subject to certain conditions, to purchase 4.3% of the shares in Frisian Flag Singapore (Holdings) Pte. Ltd. from FrieslandCampina during the period 2012 to 31 December 2015. Currently, this shareholder has not utilised this call-option.

Commitments related to the merger
In the context of the merger in 2008 Friesland Foods and Campina made two commitments to the European Commission.

The first commitment requires member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. who terminate their membership to be paid a lump-sum leaving premium of EUR 5 per 100 kilograms of milk delivered in the year preceding the year in which the application for eligibility for the lump-sum leaving premium is made. The eligibility requirement for the lump-sum leaving premium is that the member dairy farmer must become a supplier to another purchaser of raw milk in the Netherlands.

The second commitment is that a maximum of 1.2 billion kilograms of raw milk per annum must be made available to purchasers who have a dairy plant and who produce fresh dairy products or naturally ripened Dutch cheese, or either of these in combination with other dairy products. Purchasers may only obtain this milk to expand production in existing plants, for production in new plants or for production in the plants in Nijkerk (fresh dairy products) and Bleskensgraaf (cheese) disposed of by FrieslandCampina in accordance with the agreement with the European Commission.

The milk is to be made available through an independent foundation. The price of the milk is the guaranteed milk price (paid by FrieslandCampina for milk delivered by its member dairy farmers) applicable in the month of delivery. There will be a discount of 1% on this price for the first five years after the commitment takes effect. This five-year period expired in July 2014, since when this discount has not been applied.

The commitments will remain in force until member dairy farmers with a total milk volume of 1.2 billion kilograms have left FrieslandCampina or until the requirement is withdrawn by the European Commission when it is convinced that sufficient Dutch raw milk is available for the aforementioned purchasers.

The business units that had to be sold at the time of the merger and that now form part of Arla Foods and Deltamilk, utilise this option. The Dutch Milk Foundation has reserved 0.9 billion kilograms of the available 1.2 billion kilograms of milk for these market parties. In December 2013 FrieslandCampina and A-ware signed a contract with a term of 10 years for the supply of around 0.3 billion kilograms of milk (the available remainder of the 1.2 billion kilograms of raw milk). The supply of raw milk to A-ware commences 1 March 2015.

Tax risks
Transfer pricing uncertainties
FrieslandCampina has issued transfer pricing policies which are in accordance with the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. Transfer pricing has a cross-border effect and as a result thereof local tax authorities often focus on the impact of transfer pricing on the local result. In order to reduce transfer pricing risks, FrieslandCampina has implemented monitoring procedures to safeguard the correct application of the transfer pricing policies. In certain countries FrieslandCampina proactively approached the tax authorities with the aim to seek alignment on the applied transfer pricing policies.

Acquisitions, partnering & divestments
FrieslandCampina is involved in merger and acquisitions ('M&A') transactions, i.e. acquiring or divesting shares or assets and entering into joint venture agreements. Such transactions may result in different tax risks and uncertain tax positions. Examples are the transfer of historical tax liabilities to FrieslandCampina upon an acquisition, non-deductibility of acquisition related costs and tax exposures arising upon integration of the acquired activities. Within FrieslandCampina, M&A-transactions are managed by M&A-teams, consisting of representatives from relevant functional disciplines, including tax specialists. As such, uncertainties in the tax position resulting from M&A-transactions are being investigated and mitigated if required and to the extent possible.

Other liabilities
In 2014 FrieslandCampina committed to a participation in the stimulation fund "Ondernemend Oranje Kapitaal Coöperatief U.A.". The objective of this fund is to invest in risk-bearing capital in the Dutch small and medium sized business sectors whereby an investor can achieve a specified return.
A number of large Dutch entities have committed to this fund. FrieslandCampina has committed a sum of EUR 5 million.

28 Related parties

Zuivelcoöperatie FrieslandCampina U.A. is the sole shareholder of Royal FrieslandCampina N.V.

See Note 29 for the remuneration of the Executive Board and the Supervisory Board.

See Note 20 for pensions.

Zuivelcoöperatie FrieslandCampina U.A.

Zuivelcoöperatie FrieslandCampina U.A., the shareholder of the Company, and FrieslandCampina Nederland B.V., a subsidiary of the Company, have agreed that the latter will purchase the milk supplied by the Cooperative's members. In 2014 this was 9.5 billion kilograms (2013: 9.3 billion kilograms). The price to be paid for this milk is based on the weighted average milk price in Germany, the Netherlands, Denmark and Belgium, which represents 50 billion kilograms of milk in total. The milk price calculated in this way is guaranteed and, therefore, referred to as the guaranteed price.

The reservation policy has been changed as of 1 January 2014. On the basis of the review of the reservation policy is determined that, as of 2014, 45% of the profit will be added to the Company's equity. As a component of the payment for milk supplied in 2014, 35% of the profit is paid out to the member dairy farmers in cash as a performance premium and 20% is paid out to the member dairy farmers in the form of member bonds. In September 2014 an interim amount based on the Company's results for the first half of the year and the quantity of milk supplied was paid-out for the first time. The interim pay-out amounts 75% of the pro forma performance premium for the first half of the year. The final settlement will take place in April of the following year and be based on the Company's results for the entire year and the total quantity of milk supplied. The Executive Board may, in the event of an impairment greater than EUR 100 million, decide to add the entire amount to the Company's equity. This option was utilised for the goodwill impairment of EUR 200 million in 2013.

Zuivelcoöperatie FrieslandCampina U.A. issued a subordinated loan to finance the assets of Royal FrieslandCampina N.V. On 30 December 2013 this loan was converted into a perpetual subordinated loan as explained in Note 19.

	2014	2013
Interest expense		5
Other benefits	6	
Interest on member bonds	8	8
Interest on the Cooperative loan	10	
Cooperative loan (equity instrument)	296	290
Member bonds (equity instrument)	242	253
Receivable		12
Liability	42	

Joint ventures and associates

FrieslandCampina regularly purchases and sells goods from and/or to joint ventures and associated companies in which FrieslandCampina has an interest of 50% or less and over which it can exercise significant influence. The conditions under which these transactions take place are the same as for transactions with third parties. The relations are specified in the tables below:

Joint ventures	**2014**	2013
Purchase of raw materials, consumables used and commodities	16	19
Sale of raw materials, consumables used and commodities	2	2
Receivable from joint ventures	17	19
Payable to joint ventures	6	3

Associates	**2014**	2013
Purchase of raw materials, consumables used and commodities	29	28
Sale of raw materials, consumables used and commodities	92	72
Receivable from associates	3	3
Payable to associates	4	3

Member dairy farmers

FrieslandCampina regularly purchases goods from member dairy farmers. The conditions under which these transactions take place are the same as for transactions with third parties. The relations are specified in the table below:

	2014	2013
Purchase of raw materials, consumables used and commodities	4,056	3,990
Interest on member bonds	32	26
Member bonds (equity instrument)	1,058	942
Owed to member dairy farmers	488	635

Supervisory Board and Executive Board

As member dairy farmers, the members of the Supervisory Board who are also members of the Cooperative's Board conduct transactions with FrieslandCampina, including supplying FrieslandCampina with milk. This results in an obligation on 31 December 2014 to compensate the members of the Supervisory Board for the milk they have supplied. The Supervisory Board members also hold member bonds. The relations are specified in the table below:

	2014	2013
Purchase of raw materials	3	3
Member bonds	1	2

No transactions took place between FrieslandCampina and the Executive Board other than remuneration. See Note 29.

29 Remuneration of members of the Supervisory Board and the Executive Board

	2014	2013
Supervisory Board		
Short-term remuneration	1.0	0.9
	1.0	0.9
Executive Board		
Short-term remuneration	5.1	4.7
Long-term remuneration	1.9	1.4
Termination benefits	0.6	
Pension plans	0.9	0.8
Remuneration of Executive Board excluding crisis levy	**8.5**	6.9
Crisis levy		0.5
Remuneration of Executive Board including crisis levy	**8.5**	7.4

In both 2013 and 2014 employers were charged a crisis levy of 16% on the wage for current employment that an employee was paid in 2012 respectively 2013, to the extent that the wage was higher than EUR 150,000. No crisis levy is applicable for the wage related to 2014.

30 Financial risk management and financial instruments

Capital management

FrieslandCampina strives to achieve a balance between a prudent financing and reserve policy, investment in the Company and payments to the member dairy farmers. The relationship between the reserves and the payments to member dairy farmers is reviewed every three years and approved by the Member Council. When reviewing the policy expected future circumstances are taken into consideration. Potential risks over which FrieslandCampina has no influence are also taken into account.

The Executive Board, under the supervision of the Supervisory Board, is responsible for, and formulates the policy for, FrieslandCampina's risk management and internal control measures. This policy is revised on a regular basis to ensure it reflects changes in market conditions or activities. The internal control framework within FrieslandCampina supports the Executive Board in its monitoring tasks.

Financial risk management

FrieslandCampina is a multinational concern with many operating companies in various countries. This makes FrieslandCampina sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks and currency translation risks. The general risk policy is aimed at identifying and analysing risks and, if necessary, mitigating these risks in such a way that possible negative financial results are prevented. Corporate Treasury has been given the mandate to implement these mitigating measures. These measures are laid-down in clearly formulated policy. Corporate Treasury reports the exposure to financial risks, including the liquidity risk, currency translation risk, interest rate risk and credit risk related to financial services providers to the Treasury Committee.

FrieslandCampina's principal financial instruments are borrowings from credit institutions and institutional investors, members bonds and cash and cash equivalents. The main purpose of this mix of financial instruments is to raise funds for FrieslandCampina's operations from a variety of markets and investors. FrieslandCampina has various other financial instruments, such as trade receivables and trade payables, which arise directly from its operations. FrieslandCampina monitors the market risks relative to all financial instruments, mainly currency risks and interest rate risks, very closely.

FrieslandCampina also enters into derivative transactions, primarily forward currency contracts and interest rate swaps, in order to manage the currency risks and interest rate risks arising from its operations and the financing of its operations. FrieslandCampina's policy is, and has been throughout the year under review, that no trading in financial instruments takes place for speculative purposes. The main risks arising from FrieslandCampina's financial instruments are currency risks, interest rate risks, liquidity risks and credit risks.

Currency risks

As FrieslandCampina conducts business worldwide, a considerable portion of its assets, liabilities and results is sensitive to currency fluctuations. The purpose of the policy for managing transaction risks is to limit the effect of currency fluctuations on financial performance. Although, in principle, transaction risks are hedged, specific product and market circumstances may mean that this is not done, for example in the case of the Nigerian naira and the Vietnamese dong.

Currency risks resulting from investments in foreign subsidiaries and joint ventures and associates are, in principle, not hedged. By financing foreign subsidiaries in the local currency to the extent that this is possible, the risk arising from a currency 'mismatch' between assets and liabilities is limited. The solvency requirements that FrieslandCampina imposes on its foreign subsidiaries do, however, result in a degree of currency translation risk.

Exposure of currency risk

The summary of quantitative data about FrieslandCampina's exposure to foreign currency risk provided to management based on its risk management policy was as follows (positions given in EUR):

	2014					2013				
	EUR/USD	NGN/USD	IDR/USD	SGD/HKD	EUR/CNY	EUR/USD	NGN/USD	IDR/USD	SGD/HKD	EUR/CNY
Receivables	200	2	2	86	62	80		3	46	42
Cash and cash equivalents	7	13	12		5	3				
Liabilities	89	34	61			16	59	33		
Net statement of financial position	**118**	**-19**	**-47**	**86**	**67**	67	-59	-30	46	42
Forecasted sales next year	1,218	8	8	243	279	668		18	149	206
Forecasted purchases next year	505	289	245			29	364	349		
Net forecasted transaction exposure	**713**	**-281**	**-237**	**243**	**279**	639	-364	-331	149	206
Forward exchange contracts	57			25	7	91			42	
Net exposure 31 December	**774**	**-300**	**-284**	**304**	**339**	615	-423	-361	153	248
Sensitivity analysis										
Impact on profit before tax	39	-15	-14	15	17	31	-21	-18	8	12

Sensitivity analysis

FrieslandCampina is sensitive primarily to fluctuations in the US dollar exchange rate due to its sales and purchases in dollars. The largest currency pairings are EUR/USD, NGN/USD, IDR/USD, SGD/HKD and EUR/CNY. As far as the euro is concerned this relates mainly to sales in American dollars and Chinese yuan. As far as other currencies are concerned this relates mainly to the purchase of raw materials on the world market. The breakdown above summarises the impact of a 5% change in the specified exchange rate against the local currency on the income statement. A change in the exchange rate of 5% is assumed to be a realistic possibility.

A strengthening of the specified exchange rate, as indicated above, against the EUR, NGN, IDR, and SGD on 31 December would have increased (decreased) profit or loss by the amounts shown above. A weakening of the specified exchange rate has an opposite impact. This analysis is based on foreign currency exchange rate variances that FrieslandCampina considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

Currently a 5% exchange rate movement doesn't lead to a material impact on the cash flow hedge reserve, which is therefore not disclosed.

Interest rate risk

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match the effective interest in borrowings to the intended interest rate risk profile. The percentage which is characterised by a fixed interest percentage or is fixed by means of a hedge at year-end is 45%. The overview below shows the situation at the end of the year:

	2014		2013	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
Interest on borrowings				
Fixed rate	600	700	550	750
Floating rate	961	861	697	497
	1,561	**1,561**	1,247	1,247

FrieslandCampina carried out a sensitivity analysis based on the influence of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicates that, if interest had risen or fallen by 0.5%, the cumulative interest expense for the current year would have been less than EUR 2 million higher or lower.

Liquidity risk
FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities of in total EUR 2,100 million (2013: EUR 1,531 million). Of these facilities EUR 800 million (2013: EUR 510 million) was unused at the end of 2014, which is substantially more than the minimum headroom of EUR 350 million required according to FrieslandCampina's financial policy.

The table below sets out the maturity dates of financial liabilities according to the nominal amounts in the contract, including related interest obligations.

Cash flows on borrowings

					2014
	Carrying amount	Contractual cash flows	2015	2016 - 2019	After 2019
Non-derivative financial liabilities					
Interest-bearing borrowings	1,546	**-1,768**	-255	-1,000	-513
Financial lease liabilities	15	**-17**	-3	-12	-2
Trade and other payables	2,307	**-2,307**	-2,307		
Contingent consideration	7	**-8**		-8	
Derivatives					
Interest rate swaps	2	**-2**	-2		
Cross currency swaps - inflow		**486**	27	127	332
Cross currency swaps - outflow	31	**-517**	-28	-128	-361
Forward exchange - inflow		**207**	207		
Forward exchange - outflow	5	**-212**	-212		
	3,913	**-4,138**	**-2,573**	**-1,021**	**-544**

					2013
	Carrying amount	Contractual cash flows	2014	2015 - 2018	After 2018
Non-derivative financial liabilities					
Interest-bearing borrowings	1,232	-1,434	-410	-562	-462
Financial lease liabilities	15	-18	-4	-11	-3
Trade and other payables	2,245	-2,245	-2,245		
Contingent consideration	20	-25		-25	
Derivatives					
Interest rate swaps	6	-7	-5	-2	
Cross currency swaps - inflow		458	14	120	324
Cross currency swaps - outflow	62	-535	-15	-131	-389
Forward exchange - inflow		75	75		
Forward exchange - outflow	1	-76	-76		
	3,581	-3,807	-2,666	-611	-530

Credit Risk
FrieslandCampina is exposed to credit risk with its trade receivables, cash and cash equivalents and derivative financial instruments. FrieslandCampina manages credit risk by systematically monitoring the credit rating of its customers at a decentralised level and financial counterparties at a central level.

FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. In accordance with FrieslandCampina's credit management policy, customers are categorised, and depending on their credit profile, the following types of risk mitigating measures are taken:
- prepayment, paid cash on delivery or collateralisation;
- coverage by letter of credit or bank guarantee;
- credit insurance.

Thanks to the spread of geographical areas and product groups there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer accounts for more than 3.5% of revenue). The total write-offs of trade receivables amounts to less than 0.1% of the annual revenue. For further information regarding trade receivables see Note 17.

Whenever possible, cash and cash equivalents have been deposited with first-class international banks, i.e. those with at least a 'single A' credit rating. Cash and cash equivalents held by subsidiaries in relatively unstable political climates are, however, subject to local country risks. To limit these risks as far as possible FrieslandCampina follows an active dividend policy in relation to these subsidiaries. FrieslandCampina has, for example, cash positions in Nigeria and to mitigate this risk FrieslandCampina not only has an active dividend policy but also a stringent bank policy.

Derivatives are traded only with financial institutions with good credit ratings, i.e. at least 'investment grade'. FrieslandCampina's maximum credit risk exposure on financial assets is equal to the current carrying amount.

The overview below shows the credit ratings of outstanding cash and cash equivalents and derivative financial instruments as at 31 December:

	2014		2013	
	Cash positions	Contract volume derivatives	Cash positions	Contract volume derivatives
Credit rating financial institution				
AA	156	227	139	147
A	352	758	266	772
BBB+	32	1	35	9
< BBB	42		49	
No classification	40		71	
	622	**986**	560	928

Active risk management
The aftermath of the credit crisis could have a material effect on FrieslandCampina's future results in a number of ways. While the risk of a further worsening of the European economy and reduced availability of bank credit seems to have to decreased, there is an increased volatility of currency markets and risks to economic growth in emerging markets.
FrieslandCampina follows an active risk management policy. Scenario plans and measures to mitigate possible problems in the Eurozone will remain in force for the time being. On a going concern basis and on the grounds of monitoring and risk analysis in all of FrieslandCampina's operating companies, business plans are adjusted where necessary and maintained through a targeted package of risk mitigating measures.

Covenant guidelines
Existing guidelines for financial ratios:
Net Debt / EBITDA < 3.5
EBITDA / Net Interest > 3.5

The terms for both facilities (Syndicate and Private Placement) have been met. The amounts drawn under the credit facility and the private placements become repayable on demand if the related terms and conditions cease to be met.

The table below sets out the specification of the net debt at year-end:

	2014	2013
Interest-bearing borrowings	1,341	876
Current borrowings	220	371
Payable to affiliated company	42	
Receivables from affiliated company		-12
Cash and cash equivalents	-622	-560
Cash and cash equivalents not at free disposal		21
Net debt	**981**	696

Derivatives designated as cash flow hedges with the application of hedge accounting
The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair values of the related hedging instruments.

2014	Fair value	**Expected cash flows**	2015	2016 - 2019	After 2019
Interest rate swaps					
Liabilities	2	**-2**	-2		
Cross Currency swaps					
Assets	21	**22**	2	12	8
Liabilities	28	**-26**	1	2	-29

2013	Fair value	Expected cash flows	2014	2015 - 2018	After 2018
Interest rate swaps					
Liabilities	6	-7	-5	-2	
Cross Currency swaps					
Assets	3	3	1	4	-2
Liabilities	62	-77	-1	-11	-65

Accounting classifications and fair values
The carrying amounts of financial assets and liabilities, as recognised in the statement of financial position, are stated below as are the financial instruments measured at fair value, or with carrying amount that differ from the fair value, shown by valuation method. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the reporting date, without further liabilities. The different valuation methods are defined as follows:

Level 1: fair value measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: fair value measured using inputs other than those in Level 1 that are observable for the asset or liability, either directly (for example, as prices) or indirectly (for example, derived from prices);
Level 3: fair value measured using inputs that are not based on observable market data.

											2014
	Note	Design-ated at fair value	Fair value hedging instru-ments	Available-for-sale	Loans and receiva-bles	Other financial liabilities	**Total carrying amount**	Level 1	Level 2	Level 3	**Total Fair value**
Financial assets not measured at fair value											
Loans issued	(15)				36		**36**		37		**37**
Non-current receivables	(15)				6		**6**				
Trade and other receivables	(17)				1,320		**1,320**				
Cash and cash equivalents	(18)				622		**622**				
					1,984		**1,984**				
Financial assets measured at fair value											
Hedging derivatives	(14)		23				**23**		23		**23**
Securities	(15)			35			**35**	31	4		**35**
			23	**35**			**58**				
Financial liabilities not measured at fair value											
Non-current interest-bearing borrowings – fixed rate	(23)					600	**600**		598		**598**
Non-current interest-bearing borrowings – variable rate	(23)					741	**741**				
Current portion of the non-current interest-bearing borrowings	(25)					3	**3**				
Current interest-bearing borrowings	(25)					201	**201**				
Bank overdrafts	(25)					16	**16**				
Trade and other liabilities	(26)					2,307	**2,307**				
						3,868	**3,868**				
Financial liabilities measured at fair value											
Hedging derivatives	(14)		38				**38**		38		**38**
Put-option liabilities	(14)	8					**8**		7	1	**8**
Contingent consideration	(24)	7					**7**			7	**7**
		15	**38**				**53**				

											2013
	Note	Designated at fair value	Fair value hedging instruments	Available-for-sale	Loans and receivables	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets not measured at fair value											
Loans issued	(15)				39		39		39		39
Non-current receivables	(15)				4		4				
Trade and other receivables	(17)				1,335		1,335				
Cash and cash equivalents	(18)				560		560				
					1,938		1,938				
Financial assets measured at fair value											
Hedging derivatives	(14)		7				7		7		7
Securities	(15)			30			30	26	4		30
			7	30			37				
Financial liabilities not measured at fair value											
Non-current interest-bearing borrowings – fixed rate	(23)					531	531		571		571
Non-current interest-bearing borrowings – variable rate	(23)					345	345				
Current portion of the non-current interest-bearing borrowings	(25)					255	255				
Current interest-bearing borrowings	(25)					66	66				
Bank overdrafts	(25)					50	50				
Trade and other liabilities	(26)					2,245	2,245				
						3,492	3,492				
Financial liabilities measured at fair value											
Hedging derivatives	(14)		69				69		69		69
Put-option liability	(14)	7					7		7		7
Contingent consideration	(24)	20					20			20	20
		27	69				96				

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 2.60% (2013: 3.70%) is used. The fair value of the loan provided with a fixed interest rate is determined using an average interest rate of 3.06% (2013: 4.22%).

Movements and transfers

FrieslandCampina recognises transfers between levels within the fair value hierarchy at the end of the reporting period in which the transfer occurred.

Movements Level 1 and 2

In 2014 the 7.5% interest in Synlait Milk Ltd. acquired in 2013 was increased to an interest of 9.99%. This interest is classified as other financial assets. Level 1 was used as the measurement method for the rating and the listing is used as a basis of measurement.

FrieslandCampina holds an interest of < 1% in a third party that is classified under other financial assets. The fair value of this interest is derived from the net asset value of the third party. This measurement method is classified as Level 2.

The hedging derivatives are classified as Level 2 valuation method. The fair value of the forward currency contracts is calculated by comparison with the current forward prices of contracts for comparable remaining terms. The fair value of interest swap contracts is determined using the discounted value based on current market information.

Transfers between Level 1 and 2

No transfers from Level 1 to Level 2 or vice versa took place in 2014 or 2013.

Movements Level 3

The fair value of the contingent consideration was determined on the basis of an estimate of the expected EBITDA growth over the period 2013-2015. Zijerveld's lower than expected results in 2013 and 2014 have led to a decrease of the fair value of the obligation. Zijerveld's lower results were due primarily to pressure on the margins of major product categories, lower than expected sales volumes, partly a consequence of the Russian boycott. The contingent consideration has been discounted at a discount rate of 11%. This obligation is classified as Level 3.

The movements of the financial instruments classified as Level 3 were in 2014 as follows:

	2014
	Contingent consideration
Carrying amount at 1 January	20
Finance costs	3
Fair value adjustment	-16
Carrying amount at 31 December	**7**

The fair value adjustment is accounted for in other operating expenses. In addition FrieslandCampina agreed a put-option with the co-owner of Orange Srl at the time of the acquisition in 2014. The fair value of EUR 1 million was determined on the basis of the expected EBITDA times a multiplier. This obligation is classified as Level 3 and there were no further changes during the year.

31 Cash flow statement

The statement of cash flows has been prepared in accordance with the indirect method.

The table below shows the underlying relationships between the movements in the statement of financial position and the statement of cash flows for inventories, receivables and liabilities in 2014.

	Inventories	Receivables	Liabilities
At 31 December 2013	1,303	1,335	2,245
At 31 December 2014	1,264	1,320	2,307
Cash flow resulting from movement in statement of financial position	**39**	**15**	**62**
Adjustments:			
Currency translation effect	26	25	-75
Acquired through acquisition	4	11	-12
Interest movement statement of financial position		-1	
Reclassification of liabilities to current borrowings			44
Not yet paid interest on member bonds and Cooperative loan			-12
Movement in liability related to third party dividend			11
Movement in liability related to liability capital expenditure			-17
Movement in revaluation of hedging derivatives			-4
Other movements		-2	
Movements in statement of cash flows	**69**	**48**	**-3**

32 Subsequent events

There were no events after statement of financial position date which have a significant impact on the financial statements.

Principal subsidiaries, joint ventures and associates [1]

The Netherlands
Den Hollander Food B.V., Lochem
Friesland Brands B.V., Leeuwarden
FrieslandCampina Cheese & Butter B.V., Amersfoort
FrieslandCampina Consumer Products Europe B.V., Amersfoort
FrieslandCampina Consumer Products International B.V., Amersfoort
FrieslandCampina Creamy Creation B.V., Amersfoort
FrieslandCampina DMV B.V., Amersfoort
FrieslandCampina Domo B.V., Amersfoort
FrieslandCampina International Holding B.V., Amersfoort
FrieslandCampina Kievit B.V., Meppel
FrieslandCampina Nederland B.V., Amersfoort
FrieslandCampina Nederland Holding B.V., Amersfoort
FrieslandCampina Nutrifeed B.V., Amersfoort
FrieslandCampina Riedel B.V., Amersfoort
FrieslandCampina Werknemers B.V., Amersfoort
Kaashandel Culemborg B.V., Hardinxveld-Giessendam
Zijerveld en Veldhuyzen B.V., Bodegraven
Belgium
FrieslandCampina Belgium N.V., Aalter
FrieslandCampina Belgium Cheese N.V., Aalter
FrieslandCampina Cheese N.V., Aalter
FrieslandCampina Professional N.V., Lummen
FrieslandCampina C.V.B.A., Weelde (99.84%)
Yoko Cheese N.V., Genk (99.89%)
Germany
CMG Grundstücksverwaltungs- und Beteiligungs - GmbH, Heilbronn (89.56%) [2]
DMV-Fonterra Excipients GmbH & Co. KG, Goch (50%) [3]
FrieslandCampina Germany GmbH, Heilbronn (94.9%)
FrieslandCampina Kievit GmbH, Lippstadt
FrieslandCampina Professional GmbH, Cologne
Milchverwaltung FrieslandCampina Germany GmbH, Cologne
Sahnemolkerei Hubert Wiesehoff GmbH, Schoppingen (49%) [3]
France
FrieslandCampina Cheese France S.A.S., Sénas
FrieslandCampina France S.A.S., Saint-Paul-en-Jarez
Greece
FrieslandCampina Hellas S.A., Athens
Great Britain
FrieslandCampina UK Ltd., Horsham
Hungary
FrieslandCampina Hungária zRt, Debrecen (99.99%)
Italy
FrieslandCampina Italy Srl, Verona
Orange Srl, Bari (80%) [2]

[1] Ownership 100%, unless stated otherwise. If the percentage is less than 100% the direct interest of the parent in the subsidiary is stated.
[2] FrieslandCampina is, on the grounds of an agreement, entitled to 100% of the profit of this company.
[3] FrieslandCampina has control over these entities, based on voting power.

Austria
FrieslandCampina Austria GmbH, Stainach
Romania
FrieslandCampina Romania S.A., Satu Mare (99.99%)
Russia
Campina LLC, Moscow
Spain
FrieslandCampina Canarias S.A., Las Palmas
China
FrieslandCampina (Hong Kong) Ltd., Hong Kong
FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai
Indonesia
PT Frisian Flag Indonesia, Jakarta (95%)
PT Kievit Indonesia, Jakarta
Malaysia
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)
Philippines
Alaska Milk Corporation, Manilla (99.86%)
Singapore
FrieslandCampina (Singapore) Pte. Ltd., Singapore
FrieslandCampina AMEA Pte. Ltd., Singapore
Thailand
FrieslandCampina Fresh (Thailand) Co. Ltd., Bangkok
FrieslandCampina (Thailand) PCL, Bangkok (99.71%)
Vietnam
FrieslandCampina Ha Nam Co. Ltd., Phu Ly
FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)
Saudi Arabia
Friesland Arabia Ltd., Jeddah
United Arab Emirates
FrieslandCampina Middle East DMCC, Dubai
Ghana
FrieslandCampina West Africa Ltd., Accra
Ivory Coast
FrieslandCampina Ivory Coast S.A., Abidjan
Nigeria
FrieslandCampina WAMCO Nigeria Plc., Ikeja (54.58%)
USA
FrieslandCampina Ingredients North America Inc, Paramus, State: New Jersey

Joint ventures and associates [4]
Betagen Holding Ltd., Hongkong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, the Netherlands (49%)
Dutch Dairy Ingredients B.V., Leeuwarden, the Netherlands (82.33%)
Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)

[4] FrieslandCampina does not have control over these joint ventures and associates. This assessment is based on an analysis of both the shares held and FrieslandCampina's voting rights within the joint venture or associated interest.

Company statement of financial position

As at 31 December, before profit appropriation, in millions of euros

	Note	2014	2013
Assets			
Investments in subsidiaries	(2)	2,144	2,001
Loans to subsidiaries	(3)	1,557	1,225
Deferred tax assets		11	8
Other financial assets	(9)	38	3
Non-current assets		**3,750**	3,237
Other receivables	(4)	3,575	565
Other financial assets	(9)	14	3
Cash and cash equivalents		46	
Current assets		**3,635**	568
Total assets		**7,385**	3,805
Equity			
Issued capital		370	370
Share premium		114	114
Cooperative loan		296	
Member bonds		1,300	1,195
Perpetual notes			290
Fair value reserve		11	15
Cash flow hedge reserve		-33	-24
Currency translation reserve		-66	-114
Profit for the year		233	79
Retained earnings		362	480
Equity attributable to the shareholder of the Company and other providers of capital	(5)	**2,587**	2,405
Liabilities			
Interest-bearing borrowings	(6)	1,298	779
Other financial liabilities	(9)	31	67
Non-current liabilities		**1,329**	846
Current borrowings	(8)	158	355
Trade and other payables		9	8
Other liabilities	(7)	3,295	187
Other financial liabilities	(9)	7	4
Current liabilities		**3,469**	554
Total liabilities		**4,798**	1,400
Total equity and liabilities		**7,385**	3,805

Company income statement

In millions of euros

	2014	2013
Share of profit of subsidiaries, net of tax	196	105
Other results, net of tax	37	-26
Profit for the year	**233**	79

Notes to the company financial statements

In millions of euros, unless stated otherwise

1 General

Accounting policies and notes

The Company financial statements are prepared in accordance with the legal requirements of Part 9, Book 2 of the Dutch Civil Code, making use of the option of article 2:362, paragraph 8 Dutch Civil Code regarding the application of the accounting policies for the measurement of assets and liabilities and determination of result (measurement principles) applied in the consolidated financial statements. The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union. The company income statement is presented in accordance with the provisions of article 2:402 Dutch Civil Code.

See the Notes to the consolidated financial statements for items not dealt with in the Notes to the company financial statements. Subsidiaries are measured at net asset value.

A statutory reserve has been formed for the retained earnings of subsidiaries where distribution is subject to restrictions.

A list of subsidiaries and other companies in which the Company participates directly or indirectly, is available for inspection at FrieslandCampina's offices and has been filed with the Trade Registry.

In 2014 the treasury activities, such as issuing loans to subsidiaries and the management of bank positions within FrieslandCampina, that were carried out by the branch in Switzerland, were transferred to Royal FrieslandCampina N.V.

2 Investments in subsidiaries

	2014	2013
At 1 January	2,001	1,943
Profit for the year	196	105
Other comprehensive income	-113	-87
Reclassification of loans	60	
Expired DFE put-option		40
At 31 December	**2,144**	2,001

3 Loans to subsidiaries

	2014	2013
At 1 January	1,225	1,225
Reclassification of loans to subsidiaries	-60	
Reclassification to current assets	-35	
Loans issued	497	
Repaid loans	-70	
At 31 December	**1,557**	1,225

			2014			2013
Maturity schedule	2016 - 2019	After 2019	**Total**	2015 - 2018	After 2018	Total
Loans to subsidiaries	1,533	24	**1,557**	1,225		1,225

The loans issued serve to finance subsidiaries. The average interest rate on the financing of subsidiaries at the end of 2014 was 1.5% (2013: 1.5%).

4 Other receivables

Other receivables of EUR 3,271 million (2013: nil) relates to a temporary current account with subsidiaries resulting from the sweeping of bank positions within FrieslandCampina and other receivables from subsidiaries of EUR 304 million (2013: 553 million). In 2013 a receivable of EUR 12 million from Zuivelcoöperatie FrieslandCampina U.A. was also included.

5 Equity attributable to the shareholder of the Company and other providers of capital

The number of issued shares at both the beginning and the end of the financial year was 3,702,777. EUR 370 million has been paid-in on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are held by Zuivelcoöperatie FrieslandCampina U.A.

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed.
In addition, EUR 4 million (2013: EUR 4 million) of the fair value reserve should be classified as a statutory reserve. This portion relates primarily to an investment for which no quoted prices exists. A further EUR 152 million (2013: EUR 93 million) of the retained earnings is classified as a statutory reserve and as such cannot be distributed.

The equity attributable to the shareholder of the Company and other providers of capital and that is included in the company financial statements is equal to the equity attributable to the shareholder of the Company and other providers of capital that is included in the consolidated financial statements. See Note 19 in the consolidated financial statements for more details regarding equity.

6 Interest-bearing borrowings

	2014	2013
Amounts owed to syndicate of credit institutions	695	245
Amounts owed to institutional investors	600	531
Other interest-bearing borrowings	3	3
	1,298	779

The terms and conditions of outstanding non-current loans were as follows:

Loan	Currency	Nominal interest rate	Year of maturity	Nominal amount 2014	Carrying amount 2014	Nominal amount 2013	Carrying amount 2013
Syndicate	EUR	0.9	2019	700	695	250	245
Private Placement	USD/EUR	4.4	2017	117	117	107	107
Private Placement	USD	5.7	2020	110	110	96	96
Private Placement	USD	4.0	2022	66	66	58	58
Private Placement	USD	4.2	2024	121	121	106	106
Private Placement	USD	4.0	2027	186	186	164	164
Other				3	3	3	3
				1,303	**1,298**	784	779

See Note 23 of the consolidated financial statements for the amount owed to a syndicate of credit institutions and amounts owed to institutional investors.

7 Other liabilities

EUR 3,252 million (2013: nil) of the current liabilities concern a temporary current account with subsidiaries as a result of the sweeping of bank positions within FrieslandCampina. In addition a liability to Zuivelcoöperatie FrieslandCampina U.A. of EUR 42 million is recognised. In 2013 a liability of EUR 187 million to the branch in Switzerland was included.

8 Current borrowings

	2014	2013 [1]
Current portion of non-current interest-bearing borrowings		240
Current interest-bearing borrowings	107	66
Owed to member dairy farmers	39	49
Bank overdrafts	12	
	158	355

[1] The comparable figures for 2013 have been restated as explained in the accounting policies (see page 81).

The obligations to member dairy farmers concern three-year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers with the payment of a 1% interest penalty. The current interest-bearing borrowings are fully related to Commercial Papers.

9 Other financial assets and liabilities

In other financial assets and liabilities hedging derivatives amounting to EUR 26 million and EUR 38 million respectively are recognised. The cross currency swaps and interest rate swaps are equal to in the consolidated financial statements (see Note 14 of the consolidated financial statements). As a result of derivatives arranged on behalf of subsidiaries, the forward currency contracts recognised in financial assets in the company financial statements are EUR 4 million higher than in the consolidated financial statements. The contract volumes for the forward currency contracts are EUR 173 million (assets) and EUR 176 million (liabilities).

Furthermore the other financial assets includes a loan of EUR 17 million issued to Great Ocean Ingredients Pty. Ltd. that was transferred to Royal FrieslandCampina N.V. in 2014. The remaining portion of the other financial assets relates to an interest receivable of EUR 9 million.

In 2013 the other financial assets and liabilities fully related to hedging derivatives.

10 Financial instruments

FrieslandCampina is sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks and currency risks. The Notes to the consolidated financial statements contain information regarding FrieslandCampina's exposure to each of these risks and FrieslandCampina's objectives, principles and procedures for managing and measuring these risks, see Note 30.

These risks, objectives, principles and procedures for the management and measurement of these risks are correspondingly applicable for the Company financial statements of FrieslandCampina. Furthermore the following quantitative disclosure is included.

Fair value

The fair value of most of the financial instruments recognised in the statement of financial position is virtually the same as the carrying amount. The carrying amounts of financial assets and liabilities, as recognised in the statement of financial position, are stated below as are the financial instruments measured at fair value, or with carrying amount that differ from the fair value, shown by valuation method. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the reporting date, without further liabilities.

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets not measured at fair value				
Loans to subsidiaries	1,557	1,558	1,225	1,225
Other receivables	3,575	3,575	565	565
Other financial assets	26	26		
Cash and cash equivalents	46	46		
	5,204	**5,205**	1,790	1,790
Financial assets measured at fair value				
Hedging derivatives	26	26	6	6
	26	**26**	6	6
Financial liabilities not measured at fair value				
Non-current interest-bearing borrowings – fixed rate	600	598	531	571
Non-current interest-bearing borrowings – variable rate	698	698	248	248
Current portion of the non-current interest-bearing borrowings			240	240
Current borrowings	158	158	115	115
Other liabilities	3,295	3,295	187	187
Trade and other payables	9	9	8	8
	4,760	**4,758**	1,329	1,369
Financial liabilities measured at fair value				
Hedging derivatives	38	38	71	71
	38	**38**	71	71

11 Commitments and contingencies

Royal FrieslandCampina N.V. has issued statements of liability in conformance with Article 403, Part 9 Book 2 of the Dutch Civil Code in respect of liabilities resulting from legal acts of Friesland Brands B.V., FrieslandCampina Nederland Holding B.V. and FrieslandCampina International Holding B.V. and most of the Dutch subsidiaries of FrieslandCampina Nederland Holding B.V. and FrieslandCampina International Holding B.V.

FrieslandCampina N.V., together with the majority of the Dutch operating companies and Zuivelcoöperatie FrieslandCampina U.A., forms the fiscal unit Zuivelcoöperatie FrieslandCampina U.A. for VAT and income tax. On these grounds the Company is severally liable for the tax liability of the fiscal unit as a whole.

12 Remuneration of the Supervisory Board and the Statutory Directors

The remuneration of members of the Supervisory Board and the Statutory Directors is equal to the remuneration of members of the Supervisory Board and the Executive Board as disclosed in Note 29 of the consolidated financial statements. During the year under review no employees were employed by the Company.

Amersfoort, the Netherlands, 27 February 2015

Executive Board
Royal FrieslandCampina N.V.
C.C. 't Hart, CEO
H.M.A. Schumacher, CFO
C.J.M. Gielen
P.J. Hilarides
R.A. Joosten
G. Sklikas

Supervisory Board
Royal FrieslandCampina N.V.
P. Boer, Chairman
J.P.C. Keijsers, Vice-chairman
J.W. Addink-Berendsen
P.A.F.W. Elverding
S.H. Galema
L.W. Gunning
A.A.M. Huijben-Pijnenburg
F.A.M. Keurentjes
S.R.F. Ruiter
H. Stöcker
B. van der Veer
W.M. Wunnekink

Other Information

Provisions of the Articles of Association governing profit appropriation

The provisions regarding the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the Company's reserve policy, as included in Article 27 of the Articles of Association, on a proposal from the Executive Board approved by the Supervisory Board. Distributions chargeable to a reserve may be made on a proposal from the Executive Board, which will be subject to the approval of the Supervisory Board, pursuant to a resolution passed by the General Meeting. Unretained profit will be distributed.

Proposed appropriation of profit attributable to the shareholder of the Company

The Supervisory Board has approved the Executive Board's proposal that of the EUR 233 million profit, EUR 10 million is reserved as interest compensation for the Cooperative loan, EUR 40 million is added to the member bonds reserve and EUR 183 million is added to the retained earnings. This profit appropriation has been incorporated into the financial statements.

Subsequent events

For information regarding subsequent events, see Note 32 of the consolidated financial statements 2014.

Independent auditor's report

To: the shareholder of Royal FrieslandCampina N.V.

Report on the financial statements

Our opinion
We have audited the accompanying financial statements 2014 of Royal FrieslandCampina N.V. (the Company), based in Amersfoort. The financial statements include the consolidated financial statements and the company financial statements.
In our opinion:
- the consolidated financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2014 its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Netherlands Civil Code.
- the company financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2014 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2014;
- the following consolidated statements for 2014: the income statement, the statement of comprehensive income, changes in equity and cash flows; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:
- the Company statement of financial position as at 31 December 2014;
- the Company income statement for 2014; and
- the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the "Our responsibilities for the audit of the financial statements" section of our report.

We are independent of Royal FrieslandCampina N.V. in accordance with the "Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten" (ViO) and other relevant independence requirements in the Netherlands. Furthermore we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA).

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

Materiality

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 45 million. The materiality is based on the total value of milk deliveries by the members of Zuivelcoöperatie FrieslandCampina U.A. (approximately 1.1% of this). The total milk deliveries are included in the consolidated income statement under Raw materials, consumables used and commodities. We consider this benchmark to be most relevant as the member dairy farmers, as members of the shareholder (the cooperative) are also the suppliers of the Company and the remuneration for the total milk deliveries are the largest part of the remuneration the member dairy farmers receive from the cooperative. In addition, the appropriateness for the materiality was assessed by comparing the amount to consolidated revenue (approximately 0.4% of this). We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.
We agreed with the supervisory board that misstatements in excess of EUR 1 million, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Scope of our group audit

Royal FrieslandCampina N.V. is head of a group of components. The financial information of this group is included in the financial statements of Royal FrieslandCampina N.V.

Because we are ultimately responsibility for the opinion, we are also responsible for directing, supervising and performing the group audit. In this respect, we have determined the nature and extent of the audit procedures to be carried out for the components. Decisive were the size and/or the risk profile of the components or operations. On this basis, we selected the components for which an audit on the complete set of financial information or an audit of specific account balances were necessary.

We scope components of Royal FrieslandCampina N.V. into the group audit where they are of significant size or contain specific risks. Where this does not give adequate coverage we use our judgement to scope-in additional components.

Applying these scoping criteria led to a full scope audit for 18 components and to audits on specific account balances for 49 components. Furthermore, the group engagement team performed audit procedures on significant risk areas at group level, for example on the goodwill impairment test, income taxes and pensions.

This resulted in coverage of 82% of total group revenue, and 75% of total group assets.

For the remaining components, we performed amongst others analytical procedures to corroborate our assessment that there are no significant risks of material misstatement within these.

Audits of components were performed to materiality levels, the majority of which were based on the relevant local statutory audit materiality which is considerably lower than group materiality. In the other cases, component materiality was determined by the judgment of the group audit team, having regard to the materiality for the group financial statements as a whole and the reporting structure within the group. Component materiality did not exceed EUR 30 million.

The group audit team sent detailed instructions to all component auditors part of the group audit, covering the significant areas that should be covered (which included the relevant risks of material misstatement) and set out the information required to be reported back to the group audit team. The group audit team has a scheme to visit the major components every three year. In relation to the 2014 audit the component locations in Belgium, Dubai, Indonesia, Thailand and the United States of America were visited. Telephone conferences were also held with all component auditors part of the group audit. At these visits and telephone conferences, the audit approach, findings and observations reported to the group audit team were discussed in more detail.

By performing the procedures above at components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill

The annual impairment test performed by FrieslandCampina in the second quarter of the year was significant to our audit because the assessment process is complex and judgmental and is based on assumptions that are affected by expected future economic and market conditions. In performing the impairment testing for goodwill, the Company used various assumptions in respect of future economic and market conditions, such as the discount rate, revenue and margin development, expected inflation rates and the terminal value growth. We included in our team a valuation expert to assist us in this audit. For our audit we evaluated and tested the assumptions, methodologies and data used by the Company, for example by comparing them to external data in respect of the expected inflation and the market growth, peers and by performing sensitivity analysis on the outcome of the calculations. We specifically focused on the sensitivity in the available headroom of cash generating units where a reasonably possible change in assumptions could cause the carrying amount to exceed its recoverable amount. We also assessed the historical accuracy of management's estimates. We evaluated the adequacy of the Company's disclosures included in Note 12 about those assumptions to which the outcome of the impairment test is most sensitive.

Post-retirement benefit obligations

The Company's post-retirement benefit obligation mainly relate to defined benefit pension plans which are significant for the financial statements. The largest pension plans are the two pension plans in the Netherlands which together account for 92% of the consolidated defined benefit obligation. In performing our audit we have used dedicated pension specialists which were part of our audit team. We have specifically focussed on the effects of the final agreements about the participation in the sector pension plan of the Zuivel as from 1 January 2015 onwards and the plan amendment in the existing pension plans which resulted in a gain of EUR 131 million recognised in 2014. We also paid specific attention to the classification of the sector pension plan as a Collective Defined Contribution plan, amongst others by evaluating the agreements. As part of our audit we have evaluated management's actuarial assumptions such as discount rates and indexation percentages using external data. We also tested the accuracy and completeness of the underlying census data of the participants. We have also evaluated the adequacy of the Company's disclosures included in Note 20.

Deferred income tax positions and tax provisions

Income tax was a key audit matter because the valuation of the income tax positions is complex and judgmental and requires estimates. The Company's operations are subject to income taxes in various jurisdictions. We have used the knowledge and experience of our own local and international tax specialists for our audit of income tax. In respect of deferred tax assets, we tested management's assumptions to determine the probability that deferred tax assets recognised in the balance sheet will be recovered through taxable income in future years and available tax planning strategies in the respective jurisdictions. During our procedures, we used amongst others budgets, forecasts and tax laws, in addition we assessed the historical accuracy of management's assumptions. To analyse and challenge the assumptions used to determine tax provisions and uncertain tax positions, among others, we corroborated the assumptions with supporting evidence and we read the correspondence with the relevant tax authorities. We also assessed the adequacy of the Company's disclosure included in Notes 10, 21 and 27 in respect of tax and uncertain tax positions.

Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Netherlands Civil Code and for the preparation of the annual report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. Furthermore, the executive board is responsible for such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going concern basis of accounting unless the executive board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements. The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance which means we may not have detected all errors and fraud.

For more information about an audit in general we refer to the website of the Dutch Profession of Auditors (NBA). www.nba.nl/standaardteksten-controleverklaring.

Report on other legal and regulatory requirements

Report on the annual report and the other information

Pursuant to legal requirements of Part 9 of Book 2 of the Netherlands Civil Code (concerning our obligation to report about the annual report and other information):

- We have no deficiencies to report as a result of our examination whether the annual report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code, and whether the information as required by Part 9 of Book 2 of the Netherlands Civil Code has been annexed.
- We report that the annual report, to the extent we can assess, is consistent with the financial statements.

Engagement

We have operated as statutory auditor of the company since the audit of the financial statements 2008. The Annual General Meeting reappointed us as auditor of the financial statements 2014 of Royal FrieslandCampina N.V. on 2 May 2014.

Amstelveen, the Netherlands, 27 February 2015

KPMG Accountants N.V.
E.H.W. Weusten RA

Overviews

Financial history

In millions of euros, unless stated otherwise

	2014	2013	2012	2011	2010
Key figures					
Income statement					
Revenue	11,348	11,281	10,309	9,626	8,972
Operating profit before one-time items	412	513		407	428
Operating profit	489	313	487	403	434
Profit for the year	303	157	278	216	285
Guaranteed price	39.38	39.45	33.87	36.94	32.39
Performance premium in euros per 100 kg	1.86	1.81	1.42	1.10	1.23
Issue of registered member bonds in euros per 100 kg	1.07	1.23	0.95	0.73	0.73
Meadow milk premium per 100 kg of milk	0.29	0.31	0.32	0.03	0.04
Special supplements in euros per 100 kg	0.10	0.10	0.12	0.12	0.13
Milk price in euros per 100 kg	42.70	42.90	36.68	38.92	34.52
Financial position					
Total assets	7,676	7,112	6,831	5,684	5,258
Equity	2,823	2,631	2,258	2,194	2,010
Equity attributable to the shareholder and other providers of capital	2,587	2,405	2,140	2,078	1,900
Net debt	981	696	685	699	776
Cash flows					
Net cash flows from operating activities	545	588	842	508	444
Net cash flows used in investing activities	-618	-576	-702	-340	-239
Depreciation of plant and equipment and amortisation intangible assets	231	213	194	176	210
Additional information					
Equity as a % of total assets	36.8	37.0	33.1	38.6	38.2
Employees (average number of FTEs)	22,168	21,186	20,045	19,036	19,484
Total milk processed (in millions of kg)	10,716	10,659	10,215	10,140	10,266
Milk supplied by members (in millions of kg)	9,453	9,261	8,860	8,838	8,821

Milk price overview

In euros per 100 kilos of milk at 3.47% protein, 4.41% fat and 4.51% lactose in the ratio 10:5:1 excluding VAT	**2014**	2013
Fat	14.14	19.06
Protein	22.26	20.39
Lactose	2.89	
	39.29	39.45
Adjustment guaranteed price	0.09	
Guaranteed price	**39.38**	39.45
Performance premium	1.86	1.81
Meadow milk premium [1]	0.29	0.31
Special supplements [2]	0.10	0.10
Cash price	**41.63**	41.67
Issue of registered member bonds	1.07	1.23
Milk price	**42.70**	42.90
Interest registered member bonds	0.42	0.37
Retained earnings	1.93	0.45
Performance price	**45.05**	43.72

[1] Member dairy farmers who put their cows out to graze in the meadow receive a meadow milk premium of EUR 0.50 per 100 kg of milk. Averaged over all FrieslandCampina member milk this is EUR 0.29 per 100 kg of milk.

[2] Special supplements comprises the total amount of payments per 100 kilos of Landliebe milk (EUR 1.00 per 100 kilos of milk) and the difference between the organic guaranteed price (EUR 49.52) and the guaranteed price per 100 kilos of milk. Averaged over all FrieslandCampina member milk this is EUR 0.10 per 100 kilos of milk.

Supervisory Board

Piet (P.) Boer
(1960)

Position
Chairman of the Supervisory Board of Royal FrieslandCampina N.V.
Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
31 December 2008
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Member of the Supervisory Board of Alfa Top-Holding B.V.
Chairman of Commissie Duurzame Melkproductie van NZO (Dutch Dairy Association Sustainable Milk Production Committee)
Member of the Topteam Topsector Agri & Food

Jan (J.P.C.) Keijsers
(1955)

Position
Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
31 December 2008
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
None

Sandra (J.W.) Addink-Berendsen
(1973)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
16 December 2014
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Member of the Supervisory Board of ForFarmers B.V.

Peter (P.A.F.W.) Elverding (1948)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
First appointed
31 December 2008
Nationality
Dutch
Other positions held
Chairman of the Supervisory Board of Koninklijke BAM Groep nv
Vice-chairman of the Supervisory Board of SHV Holdings N.V.
Chairman of the Supervisory Board of Q-Park
Member of the Board of Stichting Instituut Gak

Sjoerd (S.H.) Galema (1962)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
14 December 2011
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Member of the Board of Bezieling Millenniumnetwerk Fryslân
Chairman of VNO-NCW Friesland
Member of the General Management Board of VNO-NCW North
Member of the Supervisory Board of Aeres Onderwijs Groep

Tex (L.W.) Gunning (1950)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
First appointed
14 December 2011
Nationality
Dutch
Other positions held
CEO TNT Express

Supervisory Board

Angelique (A.A.M.) Huijben-Pijnenburg (1968)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
15 December 2010
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Member of the Supervisory Board of AB Brabant
Member of the General Management Board of the Brabantse Delta District Water Board

Frans (F.A.M.) Keurentjes (1957)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
31 December 2008
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Member of the Groningen Provincial Council
Member of Grondkamer Noord (Agricultural Land Tenancies Authority North)

Simon (S.R.F.) Ruiter (1958)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
31 December 2008
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
Councillor Alkmaar Town Council

Hans (H.) Stöcker
(1964)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
14 December 2011
Nationality
German
Occupation
Dairy farmer
Other positions held
Chairman of Landesvereinigung Milch NRW
Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW
Member of Kreisstelle Oberberg der Landwirtschaftskammerr NRW
Member of Landschaftsbeirat Oberbergischer Kreis
Member of Aufsichtsrat Raiffeisenerzeugergenossenschaft Bergisch Land
Chairman of the 'Milch und Kultur Rheinland und Westfalen' Association

Ben (B.) van der Veer
(1951)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
First appointed
1 October 2009
Nationality
Dutch
Other positions held
Non-executive Director Reed Elsevier NV and PLC
Member of the Supervisory Board of Aegon N.V.
Member of the Supervisory Board of TomTom N.V.
Member of the Supervisory Board of Imtech N.V.

Erwin (W.M.) Wunnekink
(1970)

Position
Member of the Supervisory Board of Royal FrieslandCampina N.V.
Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
First appointed
16 December 2009
Nationality
Dutch
Occupation
Dairy farmer
Other positions held
None

Remuneration & Selection Committee
Peter Elverding, Chairman
Piet Boer
Jan Keijsers

Audit Committee
Ben van der Veer, Chairman
Simon Ruiter
Erwin Wunnekink

René Hooft Graafland will join the Supervisory Board of Royal FrieslandCampina N.V. on 1 May 2015 and will also be a member of the Audit Committee. He will fill the vacancy created by the departure of Henk Scheffers on 31 December 2014.

Executive Board

Cees (C.C.) 't Hart (1958)

Position
Chief Executive Officer
Appointed
1 January 2009
Nationality
Dutch
Responsible for
Co-operative Affairs
Corporate Communication, Sustainability
Corporate Human Resources
Corporate General Council & Company Secretary
Corporate Public & Quality Affairs
Corporate Research & Development
Corporate Strategy
Business group Cheese, Butter & Milkpowder
Milk Valorisation & Allocation
Other positions held
Chairman of the Board of the Nederlandse Zuivelorganisatie NZO (Dutch Dairy Organisation)
Member of the Board of Productschap Zuivel (Dutch Dairy Board)
Member of the General Board of VNO-NCW (Confederation of Dutch Industry and Employers)
Member of the Supervisory Board of Koninklijke Luchtvaart Maatschappij N.V.

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

Position
Chief Financial Officer
Appointed
1 January 2015
Nationality
Dutch
Responsible for
Corporate Finance & Reporting
Corporate ICT
Corporate Internal Audit
Corporate Procurement
Corporate Tax
Corporate Treasury
Enterprise Risk Management
Summit

Kees (C.J.M.) Gielen (1959)

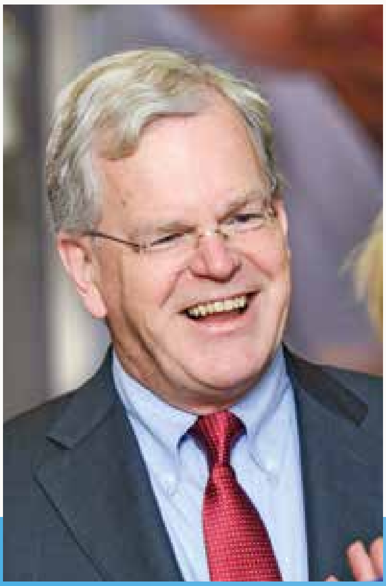
Position
Chief Operating Officer
Appointed
1 January 2009
Nationality
Dutch
Responsible for
Business Development

On 18 February 2015 it was made known that Cees 't Hart will be resigning from his position as Chief Executive Officer of Royal FrieslandCampina N.V. as of 1 June 2015. The Supervisory Board has appointed Roelof Joosten as his successor as of 1 June 2015.

Hein Schumacher joined the Executive Board on 1 September 2014 and since 1 January 2015 has filled the position of Chief Financial Officer. Until then this position was filled by Kees Gielen who, as of 1 January 2015, was appointed Chief Operating Officer Business Development.

Piet (P.J.) Hilarides (1964)

Position
Chief Operating Officer
Appointed
1 January 2009
Nationality
Dutch
Responsible for
Business group Consumer Products Asia



Roelof (R.A.) Joosten (1958)

Position
Chief Operating Officer
Appointed
1 January 2012
Nationality
Dutch
Responsible for
Corporate Supply Chain
Corporate Key Account Management
Business group Ingredients

Gregory (G.J.) Sklikas (1964)

Position
Chief Operating Officer
Appointed
1 January 2014
Nationality
Greek
Responsible for
Business group Consumer Products Europe, Middle East & Africa

Freek Rijna ended his career with FrieslandCampina on 31 December 2014. Since 2009 Freek Rijna had been Chief Operating Officer first of the Consumer Products Europe business group and then of Consumer Products Asia in Singapore. Piet Hilarides succeeded him in this position as of 1 January 2015.

Corporate staff

Executive director

Bas (S.G.) van den Berg	Bas van den Berg was appointed the Executive Director of the Cheese Butter & Milkpowder business group as of 1 January 2015. He has taken over responsibility for the business group from Piet Hilarides. Bas van den Berg was Managing Director of FrieslandCampina Branded Netherlands.

Corporate staff

Thom (T.J.C.M.) Albers	Corporate Director Co-operative Affairs (until 1 April 2015)
Werner (W.S.J.M.) Buck	Corporate Director Public & Quality Affairs
Ramon (R.M.H.K.) van Deventer	Corporate Director Internal Audit (from 1 May 2015)
Jeroen (J.H.W.) Elfers	Corporate Director Co-operative Affairs (from 1 April 2015)
Jeroen (J.J.H.) Fey	Corporate Director Milk Valorisation & Allocation
Carel (C.) Gribnau	Corporate Director Internal Audit (until 1 June 2015)
Hans (J.) van Hout	Corporate Director Tax
Margrethe (M.J.) Jonkman	Corporate Director Research & Development
Johan (J.H.A.) Keerberg	Corporate Director Procurement
Aafke (A.A.) Keizer	Corporate Director Strategy
Heidi (H.) van der Kooij	Corporate Director General Counsel & Company Secretary
Hans (J.P.F.) Laarakker	Corporate Director Mergers & Acquisitions
Erwin (W.F.F.) Logt	Corporate Director ICT
Niraj (N.) Mehra	Corporate Director Supply Chain
Frank (F.A.C.) van Ooijen	Corporate Director Communication, Sustainability
Gerben (G.) Otter	Corporate Director Summit
Klaas (K.A.) Springer	Corporate Director Treasury
Marco (M.C.) van Veen	Corporate Director Finance & Reporting
Jaap (J.C.) de Vries	Corporate Director Human Resources

Business groups and addresses

FrieslandCampina Consumer Products Europe, Middle East & Africa

The Consumer Products Europe, Middle East & Africa business group provides consumers and professional customers in Europe, Middle East and West Africa with dairy products, such as dairy-based beverages, yoghurts, desserts, infant nutrition, butter and branded cheese. In the Netherlands and Belgium the business group also sells fruit juices, fruit drinks and sports drinks. The business group is active in 17 countries (Netherlands, Belgium, Germany, France, Russia, Hungary, Romania, Greece, Spain, Italy, United Kingdom, Saudi Arabia, United Arab Emirates, Nigeria, Ghana, Egypt and Ivory Coast).

FrieslandCampina Consumer Products Europe, Middle East & Africa

Chief Operating Officer:
Gregory (G.J.) Sklikas

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Netherlands
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FrieslandCampina Branded Netherlands

Managing Director:
Berndt (B.H.M.) Kodden

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FrieslandCampina Germany

Managing Director:
Markus (M.) Brettschneider (until 1 May 2015)

Peter (P.S.) Weltevreden (from 1 May 2015)

Wimpfener Strasse 125
74078 Heilbronn
Germany
T +49 71 314 890

FrieslandCampina Hellas

Managing Director:
Kostas (K.G.) Maggioros

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15125 Marousi, Athens
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FrieslandCampina Hungary

Managing Director:
Péter (P.) Szautner

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1134 Budapest
Hungary
T +36 1 802 7700

FrieslandCampina Romania

Managing Director:
Jan Willem (J.W.) Kivits

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Romania
T +40 264 50 2000

FrieslandCampina Russia

Managing Director:
Karl (C.G.F.) Buiks

42, Ul. Mosfilmovskaya
119285 Moscow
Russia
T +74959 333 646

FrieslandCampina Branded Belgium

General Manager:
Katrien (K.) Bousson

Schaessestraat 15
9070 Destelbergen
Belgium
T +32 9 326 40 00

FrieslandCampina Foodservice Europe

Managing Director:
Giel (M.G.A.) ten Haaf (a.i.) (until 1 May 2015)

Markus (M.) Brettschneider (from 1 May 2015)

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FrieslandCampina UK

Managing Director:
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FrieslandCampina Retail Brands Europe

Managing Director:
Eric (E.H.) Schut

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FrieslandCampina Middle East

Managing Director:
Maurits (E.M.) Klavert

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FrieslandCampina WAMCO Nigeria

Managing Director:
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FrieslandCampina West Africa

Director Business Development West Africa:
Marc (M.G.) Desenfans

Ridge Street No. 10
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FrieslandCampina Ivory Coast

Market Development Director:
Marc (M.G.) Desenfans

Zone Industrielle de Youpogon, Abidjan
Route Industrap/Cemoi
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Ivory Coast
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FrieslandCampina Egypt Consulting and Trading

Market Development Director:
Jeries (J.) Alghawaly

Lot No 227 Second Zone, 5th District
New Cairo
Egypt
T +201 013 633 340

FrieslandCampina Consumer Products Asia

The Consumer Products Asia business group provides consumers in Asia with dairy products such as infant nutrition and dairy-based beverages. The business group is active in nine countries in Asia (China, Philippines, Hong Kong, Indonesia, Malaysia, Singapore, Thailand, Myanmar and Vietnam). Many products are produced locally. Several products, such as Friso, are exported from the Netherlands to Asia.

FrieslandCampina Consumer Products Asia

Chief Operating Officer:
Piet (P.J.) Hilarides

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Alaska Milk Corporation

Managing Director:
Fred (W.S.) Uytengsu

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121 Paseo de Roxas
Makati City 1226
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FrieslandCampina Trading (Shanghai)

Managing Director:
James (J.) Chiu

901 Shanghai Times Square Office Tower
No 93 Huai Hai Zhong Road
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China
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FrieslandCampina Hong Kong

Managing Director:
Arnoud (A.) van den Berg

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Hong Kong
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FrieslandCampina Indonesia

Managing Director:
Marco (M.L.) Spits

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Jakarta 13760
Indonesia
T +62 21 841 0 945

FrieslandCampina Malaysia

Managing Director:
Chooi Lee (C.L.) Saw

Level 5, Quill 9, No 112, Jalan Semangat
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Selangor Darul Ehsan Malaysia
Malaysia
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FrieslandCampina Myanmar

Managing Director:
Pascal (P.) Bardouil

DKSH Services Building, 4th floor
No. 13 Thitsar Road
Yankin Township, Rangoon
Myanmar
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FrieslandCampina Singapore

General Manager:
Eddie (B.L.) Koh

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FrieslandCampina Thailand

Managing Director:
Marco (M.G.) Bertacca

6th floor, S.P. Building
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Samsen Nai, Phayathai
Bangkok 10400
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FrieslandCampina Vietnam

Managing Director:
Mark (P.M.) Boot

Binh Hoa Ward
Thuan An Town
Binh Duong Province
Vietnam
T +84 65 03754 420

FrieslandCampina Cheese, Butter & Milkpowder

The Cheese, Butter & Milkpowder business group sells cheese, condensed milk, infant nutrition, butter and milk powder worldwide. The product range comprises a wide variety of Gouda, Edam, Maasdam and basic cheeses, both as whole cheeses and in pre-packed pieces and slices, different types of butter and milk powders. The business group has offices in five countries (Netherlands, Germany, Belgium, France and Spain) and exports to more than 100 countries.

FrieslandCampina Cheese, Butter & Milkpowder

Executive Director:
Bas (S.G.) van den Berg

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FrieslandCampina Butter & Milkpowder

Managing Director:
Hans (J.A.M.) Meeuwis

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FrieslandCampina Cheese

Managing Director:
Peter (P.S.) Weltevreden (until 1 May 2015)

Bas (S.G.) van den Berg (from 1 May 2015)

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FrieslandCampina Cheese Germany

General Manager:
Markus (M.) Brettschneider (until 1 May 2015)

Peter (P.S.) Weltevreden (from 1 May 2015)

Am Alfredusbad 2
45133 Essen
Germany
T +49 201 8712 70

FrieslandCampina Cheese France

General Manager Operations:
Frédéric (F.B.) Baeza

Quartier Les Crillons Sénas
13560 Sénas
France
T +33 490 572 929

Orange

Managing Director:
Onofrio (O.) De Carne

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70123 Bari
Italy

FrieslandCampina Cheese, Butter & Milkpowder Italy

Managing director:
Onofrio (O.) De Carne

Via Alessandro Maria Calefati 6 CAP
70121 Bari
Italy

FrieslandCampina Cheese Spain

General Manager:
Jose (J.) Alonso-Iñarra

Roger de Lluria 50
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Spain
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Yoko Cheese

General Manager:
Luc (L.) Lamberigts

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Belgium
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Zijerveld

Director:
Matthieu (M.A.A.) Zijerveld

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2411 NL Bodegraven
Netherlands
T +31 172 630100

FrieslandCampina Export

Managing Director:
Cees (C.H.M.) Ruijgrok (until 1 May 2015)

Thom (T.J.C.M. Albers) (from 1 May 2015)

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8471 ZW Wolvega
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FrieslandCampina Ingredients

The Ingredients business group develops nutritious and functional ingredients that add value to existing products. The business group supplies natural ingredients based on milk, cheese whey and vegetable raw materials to industrial customers in the infant nutrition branch, the food industry, the pharmaceutical industry and the young animal feed industry worldwide. The Ingredients business group has offices in 11 countries (Netherlands, Germany, United States of America, Indonesia, China, Singapore, Japan, Brazil, Egypt, New Zealand and India).

FrieslandCampina Ingredients
Chief Operating Officer:
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FrieslandCampina Ingredients
Business Unit Director Asia Pacific:
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FrieslandCampina Ingredients Beijng
Managing Director:
Berend Jan (B.J.) Kingma
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China
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FrieslandCampina Domo
Managing Director:
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FrieslandCampina Domo Americas
Regional Director:
Rudy (R.) Dieperink
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FrieslandCampina DMV
Managing Director:
Joost (J.) van de Rakt
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FrieslandCampina Kievit
Managing Director:
Martine (M.A.K.) Snels
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FrieslandCampina Kievit Indonesia
Business Unit Director Asia Pacific:
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FrieslandCampina Creamy Creation
Managing Director:
Steven (S.D.) Alexander
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FrieslandCampina Creamy Creation USA
Branche Manager USA:
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FrieslandCampina Nutrifeed
Managing Director:
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FrieslandCampina Kievit Germany
Managing Director:
Martine (M.A.K.) Snels
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FrieslandCampina Ingredients Latin America
Sales Office Director:
Haroud (H.P.R.C.) de Vries
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DFE Pharma
Chief Executive Officer:
Jan (J.) Jongsma
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Every day Royal FrieslandCampina provides millions of consumers all over the world with food that is rich in valuable nutrients. With annual revenue of 11.3 billion euro, FrieslandCampina is one of the world's five largest dairy companies.

FrieslandCampina supplies consumer products such as dairy-based beverages, infant nutrition, cheese and desserts in many European countries, in Asia and in Africa. Products are also supplied to professional customers, including cream and butter products to bakeries and catering companies. FrieslandCampina also supplies ingredients and half-finished products to manufacturers of infant nutrition, the food industry and the pharmaceutical sector around the world.

FrieslandCampina has offices in 32 countries and employs over 22,000 people. FrieslandCampina's products find their way to more than 100 countries. The Company's central office is in Amersfoort, the Netherlands.

FrieslandCampina's activities are divided into four market-oriented business groups: Consumer Products Europe; Middle East & Africa; Consumer Products Asia; Cheese, Butter & Milkpowder and Ingredients.

The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A., with over 19,000 member dairy farmers in the Netherlands, Germany and Belgium one of the world's largest dairy cooperatives.

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