FrieslandCampina
nourishing by nature

press release

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Results Royal FrieslandCampina N.V. first half 2020

Revenue stable, profit under pressure from corona pandemic

- **Strong start of the year with first quarter results above last year, but in the second quarter major impact from corona pandemic on operations and results.**
- **Revenue stable (+0.3%) at EUR 5.6 billion. On a comparable basis, operating profit down 17.2% and profit down 37.2% versus first half of 2019.**
- **Results under pressure from corona pandemic, most notably due to a strong decline in out-of-home sales, lower basic dairy prices and a fall in infant nutrition sales in Hong Kong due to closed borders with China. This was partially offset by higher profit for Consumer Dairy and Ingredients.**
- **Milk price for member dairy farmers decreased by 3.5% to EUR 36.59 per 100 kilos of milk due to a decline in basic dairy prices.**
- **Milk supply increased by 1.1% to 5,144 million kilos due to favourable weather conditions.**
- **Global recession with an anticipated slow recovery necessitates further intervention in cost structure and structural improvement of productivity.**

Hein Schumacher, CEO Royal FrieslandCampina N.V.: "The corona pandemic has created extraordinary market conditions in the first half of 2020. In many countries, lockdown measures forced people to stay at home and hotels, restaurants, bars and other out-of-home outlets shut down. Basic dairy prices fell sharply but certain costs rose, for example for transportation and shipping containers. In this unprecedented situation, our member dairy farmers continued to supply their milk, which was collected on time and processed in full at our production locations. We have also always delivered our products to our customers in these challenging months. We have worked hard and diligently on all this. For this, I would like to thank our member dairy farmers, employees and business partners from the bottom of my heart.

We started 2020 well with results above last year, but this changed in mid-March due to the corona pandemic. As a result, FrieslandCampina felt the financial impact of the corona pandemic in the first half of 2020. Our total revenue stayed virtually the same, but we saw a shift from the profitable out-of-home segment, where revenue mostly fell away, to sales growth for basic dairy products where prices and profit margins dropped significantly due to the corona crisis. Revenue for the profitable infant nutrition business in Hong Kong also declined as a result of the closed borders with China.

Despite taking numerous, far-reaching measures to absorb the impact of the corona pandemic on our results, unfortunately our operating result and profit still came under pressure due to the global corona crisis in the first half of the year.

However, I also see positive developments: the company has rapidly adapted to a new situation of "business as unusual" as we have come to call it at FrieslandCampina. There is an enormous focus on the primary process, on the production and distribution of our products and we are making huge strides with further digitization and e-commerce. Finally, we recently strengthened our market positions in Ingredients worldwide and in key consumer markets such as China, Indonesia, Nigeria, Pakistan and our home markets the Netherlands and Germany.

Looking ahead, we must now assume that we will enter a global recession in 2020 and that recovery will take time. This necessitates us to further intervene in our cost structure and take measures to structurally improve our productivity. However, we will also continue to invest in our brands, innovations, sales channels (such as e-commerce) and growth markets. This combination should ensure that we emerge stronger from this challenging period."

Revenue stable
Total revenue was virtually flat (+0.3%) at EUR 5.6 billion in the first half of 2020. The business groups Dairy Essentials and Ingredients saw revenue increase by 5.8% and 3.6%, respectively. Revenue for the business group Specialised Nutrition was lower (-0.8%), mainly because sales of infant nutrition products in Hong Kong fell due to the closed borders with China. Despite a strong start of the year, revenue of the business group Consumer Dairy declined in the first half of 2020 (-1.9%), mainly due to a significant decline in out-of-home volumes caused by the temporary shutdown of foodservice outlets.

Revenue of consumer and, in particular, branded products increased in the first half of 2020. Market shares of important consumer brands including Rainbow (Middle East), Peak (Nigeria), Frisian Flag (Indonesia), Olper's (Pakistan), Campina, Optimel, Parrano (the Netherlands) and Landliebe (Germany) rose. After China recovered from the corona epidemic in the second quarter of the year, infant nutrition sales in this important market returned to pre-crisis levels. The Friso brand in particular achieved sales growth in China with Friso Prestige. The resolution of the lactoferrin shortage with which the company was confronted last year and the successful deployment of the e-commerce channel during the corona crisis, enabled the Friso brand to improve its market position in China.

Profit and operating profit under pressure
On a comparable basis, operating profit decreased by 17.2% and profit decreased by 37.2% in the first half of 2020. The business groups Consumer Dairy and Ingredients saw a substantial increase in their operating profit (by 18.1% and 21.9% respectively), while the business groups Specialised Nutrition and Dairy Essentials reported lower operating profit (-16.5% and -50.5% respectively). Dairy Essentials saw its business results deteriorate significantly as of the end of the first quarter due to a sharp decline in basic dairy prices as well as restructuring charges for the intended closure of the production facility in Rijkevoort (the Netherlands). Consumer Dairy showed an increase in operating profit despite the fact that profitable market segments such as 'food service' largely disappeared as a result of the corona pandemic.

As a result of the application of the statutory fiscal cooperative regime, the allocation of the performance premium and member bonds is no longer included in operating profit as of 2020 but is allocated directly from equity to the members. As a result of this change, the company's reported operating profit rose by 5.2% to EUR 221 million in the first half of 2020 (first half 2019: EUR 210 million) and reported profit in the first half of 2020 decreased by 10.7% to EUR 108 million (first half 2019: EUR 121 million).

Cash flow from operations down due to higher working capital
Cash flow from operations was EUR 125 million in the first half of 2020 (first half 2019: EUR 195 million). The decrease is mainly due to temporary higher working capital as a result of the corona pandemic, in particular finished product stocks and trade receivables increased in the first half of 2020.

Milk supply 1.1% higher
Milk supplied by member dairy farmers increased by 1.1% in the first half of 2020 to 5,144 million kilos (first half of 2019: 5,088 million kilos). This increase was mainly due to the favourable weather conditions in the first half of 2020.

Milk price decreased by 3.5%
The milk price for member dairy farmers decreased by 3.5% in the first half of 2020 to EUR 36.59 excluding VAT per 100 kilos of milk (first half of 2019: EUR 37.90). This decrease was among others caused by a decline in basic dairy prices as a result of the corona pandemic. The organic milk price was EUR 48.73 excluding VAT per 100 kilos of milk (first half of 2019: EUR 49.78).

Interim payment
No later than 1 September 2020, FrieslandCampina will pay an interim payment of EUR 0.22 excluding VAT per 100 kilos of milk to the member dairy farmers of Dairy Cooperative FrieslandCampina U.A. (first half of 2019: EUR 0.65). The interim payment is 75% of the pro forma performance premium over the first half of the year.

Outlook
The global economy is expected to experience a major negative impact from the corona pandemic in 2020 and recover only slowly thereafter. With this in mind, FrieslandCampina will intervene further in the cost structure of the company and take measures to structurally increase productivity. The associated restructuring costs will have a negative impact on FrieslandCampina's profitability in 2020. In line with the above, the intended closure (in the second half of 2020) of the production facility in Rijkevoort (the Netherlands) was recently announced.

Sustainability
FrieslandCampina is constantly working to make the company more sustainable and to achieve a more sustainable, circular dairy chain. At a time when we need to learn to deal with epidemics, such as the corona pandemic, the role of nutritious food - such as dairy - and the relevance of sustainability are more important than ever. In order to further stimulate sustainable development at the farms of our member dairy farmers, at the end of 2019 FrieslandCampina announced that it will make an annual amount of EUR 24 million available to its members as part of the Foqus planet quality and sustainability programme. This consists of a generic company contribution of EUR 0.125 per 100 kilos of milk plus an amount for sustainable development that is determined on an annual basis. This contribution by the company will be paid for the first time in 2021 based on the results achieved in 2020 and will therefore be booked in 2020.

Royal FrieslandCampina N.V.
Royal FrieslandCampina daily provides millions of consumers throughout the world with dairy products containing the valuable nutrients from milk. FrieslandCampina produces and sells consumer products such as dairy drinks, infant nutrition, condensed milk, cheese and desserts. It supplies cream and butter products for professional use to bakeries and catering businesses. Additionally, FrieslandCampina produces and sells ingredients and semi-finished products to producers of infant nutrition, the food industry and the pharmaceutical sector. The annual turnover amounted to EUR 11.3 billion in 2019. The activities of FrieslandCampina have been divided into four global business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. FrieslandCampina has locations in 36 countries and employs about 24,000 employees. The Central Office is located in Amersfoort, the Netherlands. The company is fully owned by Zuivelcoöperatie FrieslandCampina U.A. and with 17,413 member dairy farmers in the Netherlands, Germany and Belgium it is one of the largest dairy cooperatives in the world. For additional information, please visit our website: www.frieslandcampina.com.