Annual Report 2019

# Brands growth and sustainable impact

FrieslandCampina
nourishing by nature

# Introduction

This integrated Annual Report of Royal FrieslandCampina N.V sets out the financial results and the developments and results relating to value creation and sustainability over 2019. The Annual Report is drawn up as at 31 December 2019. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (EU-IFRS) and, where applicable, in accordance with Part 9 Book 2 of the Dutch Civil Code. This report is prepared in compliance with the Global Reporting Initiative. (GRI) Standards, Core application level, and the internally used criteria for non-financial KPIs.

The 2019 milk price that the members of Zuivelcoöperatie FrieslandCampina U.A. received for the milk they supplied was determined by the FrieslandCampina 2017-2019 milk price regulation. All amounts in this Annual Report are in euros unless stated otherwise.

In addition to the Annual Report, Royal FrieslandCampina N.V. also publishes a supporting reporting website with background information and interviews www.annualreport.frieslandcampina.com.

For more information about FrieslandCampina's developments and results, visit www.frieslandcampina.com.

This Annual Report is a translation of the Dutch version. In case of discrepancies between these versions, the Dutch text prevails. The Annual Report of Royal FrieslandCampina N.V. is also available on its website www.frieslandcampina.com.

The following terms, among others, are used in this Annual Report:
- 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').

# Content


**4 A word from the CEO**
**8 Key Figures 2019**

**9 This is FrieslandCampina**
10 *Nourishing by nature*
12 How we add value to the chain
14 *Our Purpose, Our Plan*
16 Company and Cooperative
17 FrieslandCampina worldwide
18 Our brands
20 The year 2019

**22 Report of the Executive Board**
22 FrieslandCampina in 2019 – Developments and Results
23 The dairy sector in 2019
25 Consumer market trends and developments
26 Better nutrition for the world
34 A good living for our farmers
48 Now and for generations to come
57 In dialogue
61 Working at FrieslandCampina
64 Risk Management
72 Outlook
73 Management Statement
74 Statement of Executive Responsibility

**75 Corporate governance**
81 Taxes
82 Report of the Supervisory Board

**89 Financial statements**
91 Consolidated financial statements
159 Separate financial statements
166 Other information

**167 Auditor's assurance report**
168 Independent auditor's report
178 Assurance report of the independent auditor

**181 Overviews**
182 Financial history
183 Milk price overview
184 Supervisory Board
187 Executive Leadership Team

**188 Appendices**
189 2019 Sustainability targets
190 Explanation of the materiality matrix
192 GRI table
198 Stakeholder dialogue
208 HR Data
209 Glossary

View the video interview
with Hein Schumacher

"We endeavour to 'win the market' with our excellent dairy products and to lead with sustainability"

Hein Schumacher,
CEO

# A word from the CEO

## Dear Reader,

It is with pleasure that, on behalf of Royal FrieslandCampina N.V., I present you with this Annual Report containing the results for 2019. It is our second integrated report with financial and sustainability results. As such it is a reflection of the way in which sustainability is embedded in FrieslandCampina's business operations and on the farms of member dairy farmers.

**FrieslandCampina-milk price**

**37.95**

€/100 kg

**Growth in operating profit and brand products**

FrieslandCampina's operating profit improved in comparison to 2018. Leaving the one-off proceeds from the sale of business units aside, the operating profit grew by 7 percent. This growth is in part due to a 3.1 percent increase in revenue from global brand products. In addition, our focus on extracting more value from basic dairy products is bearing fruit. Furthermore, as part of the transformation initiated in 2018, we are more carefully monitoring costs, which has resulted in savings.

The results are a consequence of the *Our Purpose, Our Plan* strategy launched by FrieslandCampina at the end of October 2018. With 'winning in the market' as our focus, we are more successful finding and serving customers and consumers, and retaining their loyalty with high-quality dairy products. Furthermore, in 2019, we consciously decided to increasingly focus on brands. In addition, by taking leadership in respect of sustainability and innovation we are managing to improve our market positions. At the same time, we realise that we must become even more decisive if we want to make optimal use of the opportunities that present themselves in the segments in which our business groups operate. To achieve this, we are taking a next step as a follow-up to the transformation initiated in 2018, and we are further adjusting the structure of the business groups to be able to operate fast and with flexibility.

We faced a strong headwind in a number of areas this past year. For example, there were geopolitical developments that especially in the third quarter were challenging for the company. Protests in Hong Kong, resulting in fewer tourists and hospitality users, and an increase in protectionism in various markets, are putting revenue under pressure in a number of countries. Dairy consumption decrease slightly in Western Europe. Finally, the performance of our supply chain for the Ingredients business group was lagging and depressed the result. We have taken action in this respect and expect positive results in 2020.

"FrieslandCampina aims to make a difference from a social perspective by creating value for both its members and society as a whole"

As you will read in this report, we have achieved all ten 2019 sustainability targets. In addition to this measurable score, we took a first step on the path towards 'cooperative sustainability' this past year. Here we aim to get the production of healthy nutrition fully in balance with the preservation of natural resources. FrieslandCampina aims to make a difference from a social perspective by creating value for both its members and society as a whole. We want to invest in the quality of life now and for future generations.

**With partners**

In line with our strategy *Our Purpose, Our Plan,* we succeeded in working with new partners enabling us to give the company an extra boost to grow and become more versatile. This applies to various domains, such as the production of mozzarella and to innovations: in our view cooperation is more than the sum of its parts, it multiplies expertise, makes it possible to efficiently exploit one another's networks and enables us to more quickly bring products to market.

**For a strong Cooperative and Company**

2019 was a turbulent year, not only for the company, but also for member dairy farmers. At the end of 2018, we collectively reached agreement about balanced growth for the purpose of bringing the milk supply, processing capacity and the demand for dairy products into better balance. A year later we decided on a more future-proof milk price regulation. In addition we freed up 24 million euros to give sustainability measures at the dairy farm level a boost in 2020. I realise that the changes have an impact on the daily farm operations of our members and on the solidarity within the Cooperative. It is precisely for this reason that I am grateful to our members that we were able to take this step. It provides a solid basis for shaping a powerful cooperative and company together, able to collectively continue to better operate successfully in a challenging market.

**The future of dairy farming *in* society**

In the last quarter of 2019 in particular, the agricultural sector stood at the centre of the political and social debate in the Netherlands, where the largest share of our member dairy farmers operates. The motivation was the political-administrative decision-making about reducing the emission of nitrogen. As part of the broad coalition of agricultural farmers, our member dairy farmers let themselves be heard during protests in October and November. FrieslandCampina predominantly operates at the interface of society and the natural environment. This requires nuanced considerations. This consistently requires us to seek a balance between the production of essential nutrients and other interests and needs of society. We contribute to the preservation of the living environment and fighting climate change by reducing $CO_2$ emissions year after year, using increasingly less energy and limiting the emission of nitrogen.

I tremendously appreciate how member dairy farmers keep quality standards high and I respect how they constantly find ways of making their farm profitable with due consideration for animal, nature and climate. As a company our aim is to continue to give milk the highest possible value on the market and to pay an exemplary milk price.

## The New Year

Winning in the market continues to be our motto. Strengthening and expanding our market positions, growing through means of our brand products, and strengthening the relationships with customer are a priority. We will be taking focused steps to give 'cooperative sustainability' tangible substance as a new standard in the dairy sector and to integrate these into our product range for customers and consumers.

We are also confronted by challenges in 2020. First, political decision-making in respect of the nitrogen policy and other environmental measures can affect our members and the company's results. In addition, international political developments, and the potential impact these have on FrieslandCampina, are of course difficult to predict. Our response will be to further increase the decisiveness of our business groups and improve the performance of our supply chain.
In short, we are facing a challenging year with *Our Purpose, Our Plan* as our compass.

I am grateful to the member dairy farmers for their commitment and the choices they have made over the past year. I would like to thank our employees for their efforts and loyalty. Together we continue to build on FrieslandCampina in order to offer the world better nutrition, generate good income for dairy farmers and also to be there for future generations.

**Hein Schumacher**,
CEO Royal FrieslandCampina N.V.

# Key Figures 2019

## Better nutrition for the world

**Product composition**

**70**

2018: 66

(as a percentage of the total volume of consumer products that comply with the FrieslandCampina Global Nutritional Standards)

## Now and for generations to come

**Greenhouse gas emissions from production and transport[2]**

**723** -10.6%

2018: 809[3]

(kt $CO_2$-equivalent)

**Greenhouse gas emissions by member dairy farms**

**11,964** -3.5%

2018: 12,398[3]

**Green electricity**

**94**

2018: 90

(percentage of total electricity consumed at production facilities)

## A good living for our farmers

**Results** (millions of euros, unless stated otherwise)

**Revenue**

**11,297** -2.2%

2018: 11,553

**Operating profit**

**432** 26.3%

2018: 342

**Profit**

**278** 36.9%

2018: 203

**Operating profit as a percentage of revenue**

**3.8%**

2018: 3.0

**Value creation for member dairy farmers** (in euro's per 100 kilos of milk[1])

**Guaranteed price**

**35.66** -1.1%

2018: 36.05

**Milk price**

**37.95** 1.4%

2018: 37.43

**Performance price**

**40.00** 3.6%

2018: 38.60

**Milk supplied by member dairy farmers**

**10,020** -3.4%

2018: 10,375

(millions of kilos)

**Dairy Development Programme (DDP)**

**Number of local farmers who participate in a training programme in DDP countries[4]**

**77,934** -2.8%

2018: 80,216

1 Excluding VAT at 3.47% protein, 4.41% fat and 4.51% lactose.
2 Inclusive of purchase of $CO_2$ rights. Exclusive of purchase of $CO_2$ rights: 1,169 kt $CO_2$ equivalents (2019), 1,185 kt $CO_2$ equivalents (2018).
3 The 2018 figure has been adjusted. The emission factors for milk, milk powder and whey for NL, DE and BE have been adjusted retroactively to account for the adjusted sector model. The EU and global emission factors have also been updated due to the new FIA report concerning the emissions associated with milk production.
4 All figures refer to countries where the DDP is active.

# This is FrieslandCampina

Each and every day Royal FrieslandCampina N.V provides hundreds of millions of people throughout the world with dairy products and valuable nutrients from milk. FrieslandCampina processes and sells the raw milk of dairy farms, whose owners are member of Zuivelcoöperatie FrieslandCampina U.A. Together with member dairy farmers, FrieslandCampina manages the complete production chain: from grass to glass.

FrieslandCampina supplies consumer products, such as milk, yogurt, cheese, infant nutrition and desserts, products for the professional market, such as cream and butter products, ingredients and semi-finished products for producers of infant nutrition, the food industry and the pharmaceutical sector.

FrieslandCampina is one of the largest dairy companies in the world with a cooperative tradition going back almost 150 years. In 2019, 11,476 member dairy farms in the Netherlands, Germany and Belgium supplied approximately ten billion kilos of milk. FrieslandCampina has branches in 36 countries and exports to more than one hundred countries worldwide. At year-end 2019, FrieslandCampina employed 23,816 (FTEs) workers.

The member dairy farmers of FrieslandCampina in the Netherlands, Germany and Belgium own Royal FrieslandCampina N.V. for 100% via Zuivelcoöperatie FrieslandCampina U.A. All member dairy farmers are independent entrepreneurs.

## Four market-oriented Business Groups

**Consumer Dairy**
provides consumers with dairy products, such as milk, yoghurt, condensed milk, dairy-based beverages, cheese, butter and cream. For professional customers, such as bakers, pastry chefs, chocolate confectioners, chefs and caterers, Consumer Dairy offers a broad product range of creams, butter, desserts and fillings.

**Specialised Nutrition**
supplies nutrition to specific consumer groups, such as the elderly, children and sportsmen. For young children who are entirely dependent on reliable nutrition with a unique combination of nutrients, for adults in various stages of their lives and for sportsmen who consider sports nutrition a key factor in their performance.

**Ingredients**
supplies dairy-based ingredients. These ingredients offer added value – with application-specific innovations – to producers of infant nutrition and foods, to the pharmaceutical industry and to producers of animal feeds. The business group works closely together with its customers and focuses on nutrition for children and the elderly, and on medical nutrition.

**Dairy Essentials**
produces and sells Dutch cheeses, such as Gouda, Edam and Maasdam, and a wide range of foreign cheeses, different types of butter and milk powders for professional and industrial customers. This business group is responsible for allocating the milk of member dairy farmers and for valorising bulk volumes of milk on global basic dairy markets.

# nourishing by nature

The FrieslandCampina dairy company is held by a cooperative of member dairy farmers with a rich heritage dating back almost 150 years. The member dairy farms often date back many generations with proud family ownership where dairy farmers milk their cows with concern for animal and nature. The farmers formed a cooperative on the basis of this principle resulting in one of the largest dairy companies in the world that in 2019 operated on all continents and that each day supplied hundreds of millions of people with dairy products.

According to the latest calculations of the United Nations, the global population is expected to grow from approximately 7.7 billion people in 2019 to some 10 billion in 2050[1]. The need for high quality and affordable nutrition continues to increase as a result. Currently, access to basic nutrition is not self-evident for millions of people[2].

Over the long term it is important that the pressure on stocks of natural raw materials and the capacity of these stocks to recover is in balance. Due to the increasing demand, this balance threatens to be disrupted. In addition, the rising temperatures and changing weather conditions due to climate change are increasing the pressure on the available agricultural land area.

To deal with these major challenges, FrieslandCampina as a socially involved company wants to make a difference together with others in this respect. Making an impact by creating value for society with as a result that the quality of life continues to be safeguarded for future generations.

Milk contains nutrients that are essential for a healthy life. For example, proteins are important for developing and maintaining muscles and calcium is indispensable for bones. Particularly infants, children, sportspeople and the ill need protein for growth, sports performance and to regain strength, respectively.

As a company, we make a contribution to the continuity of the farms of our members with the production and sale of dairy products. The company aims to pay an exemplary milk price in Northwest Europe and has in fact realised that ambition in recent years. This way FrieslandCampina is and stays attractive to member dairy farmers.

1 Estimated growth based on UN report (mid-2019).
2 Unicef: Number of hungry people in the world in 2018: 821.6 million (or 1 in 9 people) (July 2019).

All of this finds expression in the company's core purpose: *nourishing by nature*.

**Better nutrition for the world**
We contribute to food safety and food security for millions of people all over the world by providing them with access to dairy.

**A good living for our farmers**
We pay an exemplary milk price and this way enable member dairy farmers to maintain healthy farming operations. In addition, we support local dairy farms in Asia, Africa and Eastern Europe.

**Now and for generations to come**
We assume responsibility for maintaining the natural living environment. This is the basis and the future of the company and the world at large. Furthermore, we encourage member dairy farmers to operate their farm in balance with nature and climate.

Our DNA means that by our very nature we rely on cooperation. We work together with partners and create coalitions with governments, customers and NGOs for the purpose of collectively adding value. We believe that working together enlarges and accelerates our innovative strength. This way we contribute to developing new standards for a dairy sector that over the long term offers better nutrition in balance with nature to a wider public throughout the world. For us, this 'cooperative sustainability' is a key pillar of our purpose *nourishing by nature*.

# How we create value to the chain

## Our input

**Member dairy farmers**
**17,413**

Average number of cows per dairy farm in the Netherlands[1]
**100**

Milk supplied by member dairy farmers
**10,020** million kilos

Sustainable procurement of raw materials
**87** %

Energy consumption
**2.79** Gj/tonne
of which green **29** %

## Our Purpose, Our Plan

nourishing by nature

### Strategic themes

- Win with nutrition
- Serve the 24/7 consumer and customer
- Lead with sustainability
- Elevate our essentials

## Our output

**Better nutrition for the world[2]**
**70** %

**Brands**
**36**

**Milk price[3]**
**37.95** €

**Revenue**
**11.3** € billion

**Profit**
**278** € million

**Local dairy farmers trained (DDP)**
**77,934**

**Emission of greenhouse gases[4]**
**12,687** Kt $CO_2$ equivalents

**Recyclable packaging**
**87** %

**Pasture grazing**
**83** %

## Our impact

Our contribution to the Sustainable Development Goals (SDGs)

**Better nutrition for the world**
We are working on a healthier product range, communicating transparently about our products, offering more people access to nutrition and supporting educational programmes about healthy nutrition. This way we contribute to food security and food quality for millions of people all over the world. (SDG 2)

2 ZERO HUNGER

8 DECENT WORK AND ECONOMIC GROWTH

**A good living for our farmers** We add as much value as possible to milk so as to maximise its contribution to member dairy farmers' incomes and to the continuity of their dairy farms. In addition, we support local dairy farms in Asia, Africa and Eastern Europe in improving their farming operations, milk quality and productivity.
(SDG 2, 8, 12)

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

**Now and for generations to come**
We aim to fulfil a leading role in sustainability within the dairy sector. We have been working together with member dairy farmers for years on reducing our ecological footprint, improving biodiversity, animal health and animal welfare. The premium price we receive for more sustainable dairy products directly benefits the dairy farms that devote effort to animal, nature and the environment.
(SDG 12, 13, 15).

13 CLIMATE ACTION

15 LIFE ON LAND

## Foundation

**Employees**
**23,816** FTEs

**Health and Safety**
accident ratio **0.35**

**Diversity**
**28.4** %
women

17 PARTNERSHIPS FOR THE GOALS

'From grass'... cow & dairy farmer — production — consumer ...'to glass'

1 Measured for all of the Netherlands.
2 Consumer products that comply with the FrieslandCampina Global Nutritional Standards.
3 Per 100 kilos of milk (exclusive of VAT, at 3.47% protein, 4.41% fat and 4.51% lactose).
4 This concerns greenhouse emission at member dairy farms (11,964 kt $CO_2$ equivalents), during transport from the farm to production facilities and between these locations, and when the dairy is processed at the production facilities (723 kt $CO_2$ equivalents).

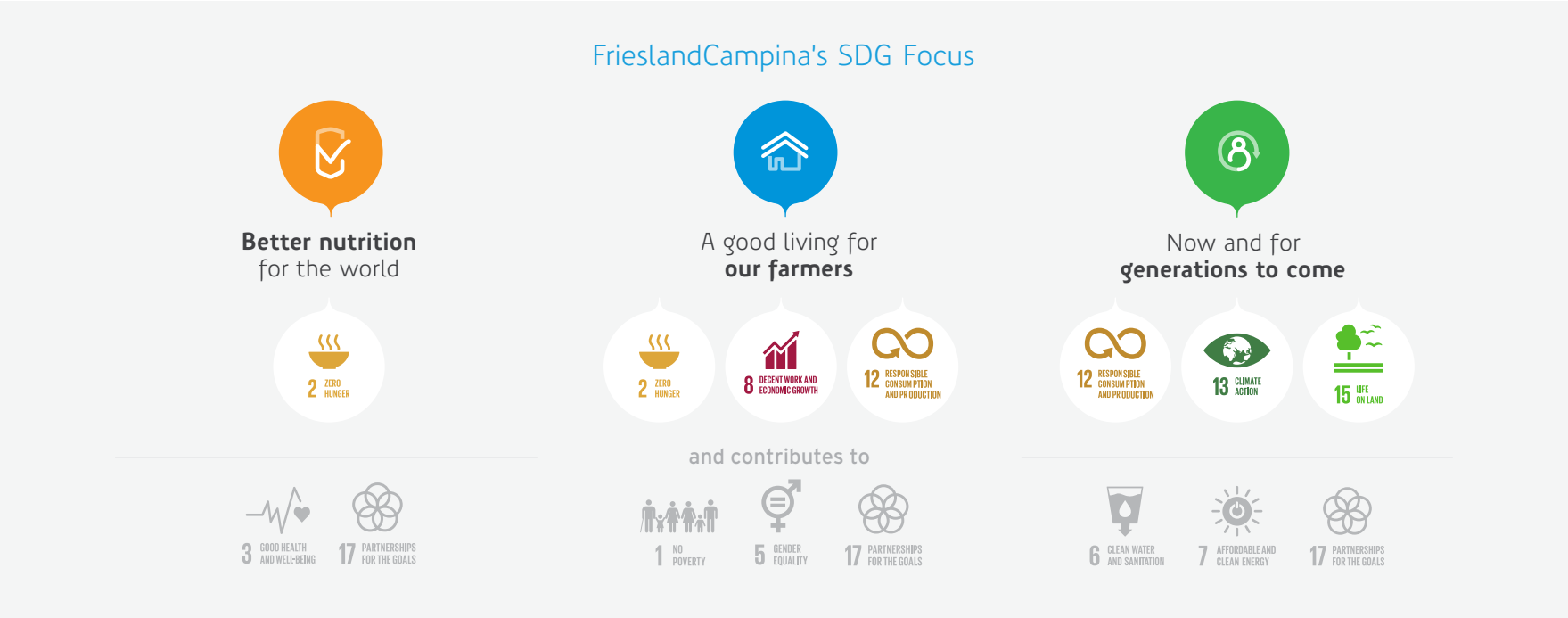
## How we create value

How does FrieslandCampina create value for member dairy farmers, consumers, customers and society? The value creation model in an integrated fashion shows how we treat the resources required for our business operations. And how we create value through means of our ambition, efforts and the results arising from this.

## Sustainable Development Goals

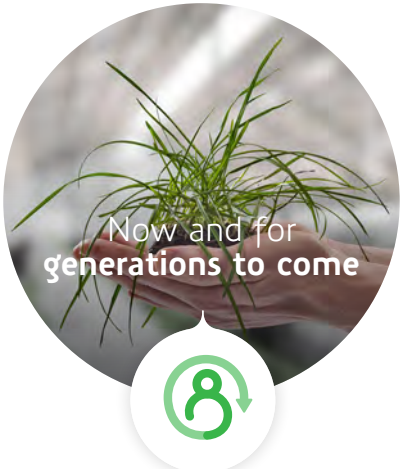
The United Nations has developed a series of Sustainable Development Goals (SDGs): seventeen ambitious goals relating to topics such as responsible production and consumption, climate, sustainable communities, health and well-being, and efforts to fight poverty and starvation. These development goals have been endorsed by 193 countries They give governments and the business sector a roadmap for a fairer and more sustainable future.

FrieslandCampina focuses on five of the seventeen United Nations' SDGs with its activities.



# Our Purpose, Our Plan

**What does FrieslandCampina stand for? What determines our direction, our actions?**
FrieslandCampina operates on the basis of the purpose *nourishing by nature*. This purpose stands for better nutrition for the world, a good living for our farmers, now and for generations to come.




## Strategic themes

FrieslandCampina determines its strategic objectives for the coming years on the basis of its purpose – *nourishing by nature*. These strategic objectives are set out in the strategy *Our Purpose, Our Plan* and comprise four themes:

### Win with nutrition

Producing good and healthy dairy products is at the core of who we are and what we do. We have a unique 'from grass to glass' proposition for our customers and consumers.

### Serve the 24/7 consumer and customer, anytime and anywhere

We are committed to serving customers and consumers, anywhere and anytime: This means having the right product at the right time, in the right location for the right price.

### Lead with sustainability

FrieslandCampina and its member dairy farmers aspire to build a leading position in sustainability and set the standard for the dairy industry. We will invest more in the brands that are in line with our purpose.

### Elevate our essentials

We will make a step change in our approach towards essential dairy products. We aim to build profitable branded and unbranded cheese positions to shift milk away from unprofitable products.
We will also increase our milk processing flexibility to ensure the best possible return.

## Strategic objectives, drivers and foundations

**Win with nutrition**
- Infant nutrition in China, Hong Kong and Southeast Asia;
- Healthy ageing and performance & lifestyle nutrition;
- Ingredients for early life and adult nutrition.

**Serve the 24/7 consumer and customer, anytime and anywhere**
- Commercial rigour and digital agility;
- Food service and global accounts.

**Lead with sustainability**
- Building brands and applications that contribute to our purpose;
- Making the entire dairy chain – from grass to glass – sustainable.

**Elevate our essentials**
- Excel in commodity management;
- Build a profitable cheese business;
- Create robust milk processing flexibility.

## Focus areas of strategic themes

**Ambitions**

In line with *Our Purpose, Our Plan* our strategic ambitions are as follows:

- To achieve the highest possible performance price for our member dairy farmers so as to ensure them of a good living;
- To realise our sustainability targets;
- Organic growth in value-added products;
- To increase the gross profit margin;
- To increase the return on invested capital.

**Drivers for our strategy**

We focus on six supporting programmes for the purpose of realising the ambitions of *Our Purpose, Our Plan*. These drivers make the difference for the future:

- Accelerate innovation – anticipating the wishes of consumers and customers, with the focus on excellent nutrition;
- Optimise supply chain performance – with the Unlock Supply Chain programme and employee efforts, costs are reduced and our versatility is increased;
- Create a winning organisation in which talent can further develop itself, in which diversity and inclusive cooperation are logical and are encouraged.
- Focus on costs – spend money on things that create value for customers and consumers, apply an owner's mindset;
- Realise digital acceleration with consumers and customers;
- Focus on partnerships and possible acquisitions.

**Foundations**

To successfully implement these plans, FrieslandCampina builds on the following business pillars:

- A safe employee working environment;
- High quality products;
- The employee Code of Conduct: Compass;
- A culture in which employees are driven by our purpose, are commercially oriented and operate with an owner's mindset.

# Company and Cooperative

In 2019, Zuivelcoöperatie FrieslandCampina U.A. counted 17,413 member dairy farmers in the Netherlands, Germany and Belgium, who through the Cooperative own the company Royal FrieslandCampina N.V. This company processes the milk supplied by 11,476 member dairy farms into dairy products and sells these products. The dairy farms are independent companies.

The Company operates on the basis of the purpose *nourishing by nature* and the Cooperative has set out its vision in The Merits of Milk. This way the Company's and the Cooperative's goals and ambitions reinforce each other and are closely intertwined.

The Merits of Milk stands for creating value for members through means of a distinctive chain approach that is market-oriented, anticipates societal developments and actively contributes to achieving climate and environmental objectives. A dairy cooperative of which members are rightly proud.

## The Merits of Milk

**Care for animal and nature**

Circular milk production at every farm:
- Animal and soil in balance
- Leader in low climate impact
- Energy-neutral production

Well-cared for cows

Managers of an attractive landscape with pasture grazing

**Value for member dairy farmers**

Market-oriented chain:
- Balanced volume
- Profitable and flexible milk streams

New earnings models

**Together of value to society**

Connected by: diversity, entrepreneurship, added value and responsibility

Connected by: society

Unique together: healthy nutrition for our home market and the world thanks to our unique chain

## Our Purpose, Our Plan

**Better nutrition for the world**

Feeding the growing world population

Optimise the nutritional value of dairy products

Provide affordable nutrition in selected markets

**A good living for our farmers**

Be an attractive cooperative for member dairy farmers

Support for dairy farmers in Asia and Africa

Enhance attractiveness for young farmers

**Now and for generations to come**

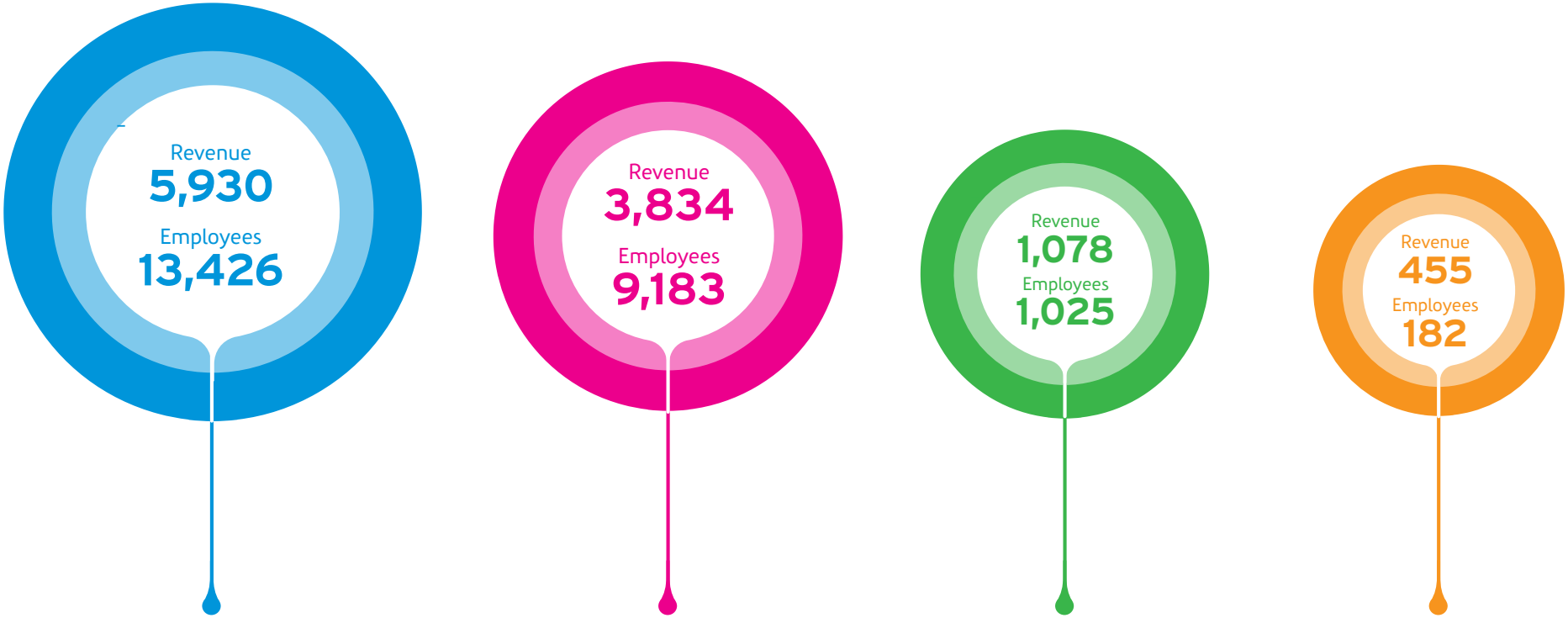
Invest in sustainable long-term growth

Grow in a climate neutral way

Reduce the use of scarce natural resources

# FrieslandCampina worldwide

(in millions of euros and FTEs)




Branches in
36 countries

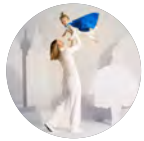
Products find their way to
> 100 countries

Number of employeees worldwide
23,816

# Our brands

## Consumer brands

## Ingredients



Early Life Nutrition

Performance Nutrition

Medical Nutrition

Active Nutrition

Cell Nutrition

Food & Beverages

Animal Nutrition

(by revenue in euros)

## Top 10 consumer brands

- Friso — WORLDWIDE
- Frisian Flag — INDONESIA
- Dutch Lady — ASIA
- Peak — NIGERIA
- Campina — NETHERLANDS AND BELGIUM
- Debic — WORLDWIDE
- Foremost — THAILAND
- Alaska — PHILIPPINES
- Rainbow — MIDDLE EAST
- Landliebe — GERMANY AND EASTERN EUROPE

## Top 5 ingredients

- **Excellion** caseinate
- **Kievit Vana Grasa** creamers
- **Vivinal GOS** syrup
- **Pharmatose** DFE
- **Base powders** IFT GuM

# The year 2019

March 2019

Introduction of affordable infant nutrition under the brand name **Susu Bendera in Indonesia**

April 2019

**First production** by DMK Group of FrieslandCampina mozzarella cheese destined for B2B market

May 2019

Reintroduction of **Ingredients** business unit worldwide

May 2019

First stone for new **head office in Ivory Coast, West Africa**

June 2019

**Acceleration of energy-neutral dairy farms** through means of small windfarms

August 2019

Launch of **TrackEasy** for consumers in Asia

September 2019

Initiation of **Winning with Climate and Nature** programme

# The year 2019

**#Proud** of our farmers campaign

September 2019

October 2019

Partnership with **United Dairymen of Arizona** for the production of lactoferrin

October 2019

Agreement with **Royal A-ware** for processing Mozzarella

Completion of sale of Creamy liqueur producer **Creamy Creation**

November 2019

November 2019

Memorandum of Understanding signed for **Nigeria Dairy Development**

**New milk price regulation** adopted

December 2019

December 2019

Completion of sale of majority interest in **CSK Food Enrichment C.V.**

FrieslandCampina in 2019

Developments and results

Excellent progress in dairy chain sustainability

# Higher profit and brands growth in tough market

- Operating profit excluding one-off proceeds from the sale of business units grew by 7 percent.
- Profit rose by 36.9 percent to 278 million euros as a result of one-off gains and improved operating profits in Consumer Dairy and Dairy Essentials. The results of Specialised Nutrition and Ingredients were under pressure.
- Revenue declined by 2.2 percent to 11.3 billion euros due to a decline in the milk supply of 3.4 percent.
- Revenue from branded products rose by 3.1 percent. Revenue from cheese increased by 8.8 percent globally.
- In the home markets (The Netherlands, Germany and Belgium) growth and profitability remained under pressure.
- The average milk price for member dairy farmers increased by 1.4 percent to 37.95 euros per 100 kilos of milk.
- The transformation initiated in 2018 is on track: a more effective organisation, faster innovations, higher investments in consumer brands, significant progress relating to the portfolio in healthy nutrition and sustainability in the dairy chain.
- The emission of greenhouse gases by FrieslandCampina and member dairy farms declined by 10.6 percent and 3.5 percent, respectively. The share of green electricity rose to 94 percent of overall consumption.
- Recyclable, lighter and resealable cheese packaging was introduced. 87 percent of the packaging portfolio is recyclable.

# The dairy sector in 2019

Developments and trends in the global dairy sector affect FrieslandCampina's results and determine the Company's future choices. The key developments in 2019 are highlighted below. In addition, several global consumer trends that influence FrieslandCampina's strategy are also shown.

**Global demand for dairy products**

**+3.4%**

## Milk production

Low margins on milk production and the occasional unfavourable weather conditions in the most important global export regions meant that global milk production barely increased in 2019.

### The Netherlands

In the first half of 2019, the milk supply in the Netherlands declined by 2.7 percent in comparison to 2018, due to the phosphate regulation introduced in 2018. Effective from August, the milk supply rose by about 1.5 percent in comparison to the same months in 2018, as a result of which the overall milk supply for all of 2019 was lower by about 0.7 percent.

### Europe

In the first half of 2019, the milk supply in the European Union slightly increased by 0.3 percent in comparison to 2018. In the months following, growth increased resulting in a slight increase of 0.6 percent for all of 2019. With a growth of 5 percent, Ireland was primarily responsible for this result. In addition, the United Kingdom and Poland also exhibited significant growth rates. In Ireland and Poland in particular, this was due to higher efficiency resulting from new investments in the sector.

### Rest of the world

In the United States, the growth in milk supply was roughly equal to that in Europe. In New Zealand, milk production experienced a minor decline at the end of the year and as a result, milk production was roughly the same as in 2018. Australian dairy farmers were strongly affected by the drought and heat of the past year. Milk production there declined by more than 6 percent.

## Basic dairy market trends

Globally, the demand for dairy products was 3.4 percent higher than in 2018 due to the relatively low prices for dairy products and strong economic growth, particularly in China and Southeast Asia. A significant increase in the price of butter and skimmed milk powder was averted through the drawdown of available stocks on the market.

### Milk Prices

The average milk prices in the European Union declined at the beginning of the year from 35.02 euros per 100 kilos of milk to 33.40 euros in June, after which they once again rose to approximately 35.31 euros at the end of the year. In the Netherlands, milk price development displayed a similar trend, but then at a somewhat higher level.

### Butter
Butter prices declined from 4,140 euros per tonne to 3,590 euros per tonne at the end of the year. The butter market was adversely affected by the high fat prices of 2017 and 2018. As a result, industrial buyers of butter in particular switched to plant-based fat for many applications. This caused the demand for butter to decline. Due to the drop in demand and the increase in butter production, stocks were built up that kept prices under pressure for a long time.

### Cheese
Approximately half of the milk produced in the Netherlands is used for cheese production. The cheese price was fairly stable in 2019: prices fluctuated between 2,975 euros and 3,075 euros per tonne. In December, the Hannover quotation rose to 3,200 euros per tonne.

### Skimmed milk powder from intervention stocks
To support the sector in 2015 at a time when the price and sale of milk declined drastically, the European Commission (EC) purchased skimmed milk powder. This was done at a fixed intervention price of almost 1,700 euros per tonne. At the beginning of 2018, 380,000 tonnes of skimmed milk powder were still held in storage. That year the EC sold 280,000 tonnes of skimmed milk powder. The last part of almost 100,000 tonnes was sold in January 2019.
As such the EC had relinquished its intervention stocks, although the skimmed milk powder had not yet been used up. In 2019, stocks continued to 'overhang the market' for some time until at the end of the year they were actually processed.
At the end of 2019, stocks were virtually sold out and skimmed milk powder prices rose sharply. The quotation increased from 1,790 euros per tonne in January to almost 2,600 euros in December.

### Whole milk powder
There was a high demand for whole milk powder on the global market, in particular from China and Southeast Asia. Nevertheless, production in the European Union declined because New Zealand was able to offer cheaper powder, and products were replaced with cheaper fat-filled milk powders.
The production of these milk powders strongly increased in Europe.
This resulted in a stable price trend. At the beginning of 2019, the quotation for whole milk powder was 2,730 euros per tonne, but increased to 3,130 euros in December.

### Whey powder
The sale of European whey powder benefited form the trade war between the United States and China. At the same time, the sale of whey powder was adversely affected by the breakout of the African swine fever in China and Southeast Asia, as a result of which its sale of animal feed declined. In 2019, whey powder prices declined from 790 euros per tonne to 580 euros per tonne in September, after which they once again rose to above 700 euros per tonne.

## Nitrogen and farmers' protest
Reducing the emission of nitrogen has kept the Netherlands in its grip ever since the decision taken by the Council of State concerning the Nitrogen Approach Programme (PAS), and the government's announcement that the nitrogen policy will be refined. This combined with a lack of clarity about the future is generating a great deal of resistance among farmers.

The first large farmers' protest was on 1 October 2019, at the Malieveld, a large grass field in The Hague's city centre. FrieslandCampina supports farmers in the work they do day in day out in producing sustainable and nutritional foods with a focus on climate, biodiversity and animal welfare. We also expressed this support in the weekend prior to 1 October in the form of a letter campaign addressed to all our member dairy farmers, advertisements in national and regional newspapers, and through online expressions of support. Due to the dissatisfaction with the provincial policy, provincial government buildings were also affected by several farmers' protests.

# Consumer market trends and developments

Trends and developments in the consumer markets in which FrieslandCampina operates determine the company's future choices. Several global trends that contributed to influencing the development of the new strategy *Our Purpose, Our Plan* are highlighted below.

**Healthy nutrition**

Nowadays, consumers more consciously opt for food that contributes to a healthy lifestyle. Milk naturally contains important nutrients, such as protein and calcium, and as such forms part of a healthy nutritional diet. The demand for quark and other protein-rich products is increasing, as is the demand for a different type of dairy product, consistent with new consumer lifestyles.

**24/7 consumer**

Increasingly more people live in cities and increasingly more people eat on the road and in-between. In addition, traditional sales channels are also changing. The supermarket today exists more for convenience than anything else, and the items needed to prepare a meal can now be ordered online and are delivered at home.

In Asia, Africa and the Middle East a shift is also taking place in the consumption of traditional dairy products, such as condensed milk and milk powder. These products are being displaced by ready-to-drink varieties, particularly in countries with strong economic growth. In addition to tea and coffee, condensed milk also is increasingly more often used as an ingredient in meals. There is an increasing demand for cheese for out-of-home consumption or for snacks.

**Products with increased sustainability**

Globally, consumer demand for increasingly sustainably produced products continues to rise. For consumers and society, producing in a sustainable and transparent way is no longer a nice-to-have, but a must-have. Consumers and customers, as well as the political establishment, government and other stakeholders, increasingly consider it natural that companies in our sector not only devote effort to animal welfare and biodiversity, but also that they assume their role in contributing to a better world and achieving international climate targets. Consumers sometimes are prepared to pay more for sustainable products, provided the additional compensation directly benefits the producers, i.e. dairy farmers in case of the dairy sector.

FrieslandCampina works on a healthier product range, is transparent in its communications about its products, offers more people access to nutrition and supports educational programmes about healthy nutrition. Information about FrieslandCampina's nutrition policy, including its Global Nutritional Standards, is published on its website.

## Better nutrition
for the world

### Advisory Council

In 2019, an Advisory Council was established to evaluate the FrieslandCampina Institute's way of working and strategy with respect to various nutritional topics ranging from undernourishment, nutrition, nutrition policy, health, access to nutrition, food safety, and lifestyle and other information. The Advisory Council consists of a group of international multidisciplinary researchers in the area of malnutrition, nutrition, population health and consumer behaviour.

### Balance and composition of product range

Milk naturally contains important nutrients, such as protein and calcium. According to the World Health Organisation (WHO), it is important to limit the intake of sugar, salt and fat in the fight against diseases of affluence (obesity and nutrition-related diseases). FrieslandCampina aims to lower the concentration of these nutrients in its products. The FrieslandCampina Global Nutritional Standards are scientific nutritional criteria that the company's own consumer products are expected to comply with. The criteria for trans-fat, saturated fat, added sugar and salt are derived from the criteria of Choices International, which were developed by independent scientists.

FrieslandCampina's aim is to have at least 70 percent of its products (on the basis of sales volume) comply with the Global Nutritional Standards in 2020. In 2019, this percentage increased to 70 percent (2018: 66 percent) and as such we have achieved this objective before 2020. This represents a growth of 13 percentage points since 2015. In 2020, the Global Nutritional Standards will be evaluated and where necessary adjusted in accordance with recent scientific standards. New objectives will be established on the basis thereof.

FrieslandCampina also aims for a product portfolio with a good balance between 'basic nutritional products for daily consumption' and 'self-indulgent products for occasional consumption'. The objective is to achieve a proportion of at least 70 percent 'basic nutritional products for daily consumption' and a maximum of 30 percent 'self-indulgent products for occasional consumption'. In 2019, the percentage 'basic nutritional products for daily consumption' was 79 percent (2018: 80 percent).

## TrackEasy®: honest, elaborate information about the origin of infant nutrition

FrieslandCampina launched the digital innovation TrackEasy® in China and Hong Kong in 2019. Using the QR code on the Friso packaging, consumers can track the origin of their infant nutrition.

View the full story online

| Better nutrition | 2019 | 2018 |
|---|---|---|
| **Product composition** (as a percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards) | 70 | 66 |
| **Balanced product supply** (basic food products sold as a percentage of the total volume of consumer products sold) | 79 | 80 |

## Innovation

FrieslandCampina has experts in the area of nutrition, milk composition, process technology, products, packaging, sustainability and dairy farming. Due to their knowledge and expertise, the company is able to continuously improve and renew its products and the production chain. Thus covers the full breadth of our activities. Ranging from production processes that through means of innovations use less energy; more sustainable packaging; product compositions with an even higher absorption rate for use after medical interventions to solutions for lowering the ecological footprint of the dairy farming sector. The experts in the innovation centres in Wageningen and Singapore work on new products or product variations that as closely as possible match consumer and customer wishes and needs. The company's strategy Our Purpose, Our Plan resulted in more relevant innovations in products, packaging, processes, healthy nutrition and sustainability. To make this possible, FrieslandCampina invested 82 million euros in its research & development activities in 2019.

# Accelerating innovation

In 2019, the processes in FrieslandCampina's innovation centres were accelerated, thus enabling a product or process to be introduced to the market faster. 'Open innovation' plays an important role in this respect and involves cooperation with many different knowledge institutes and other organisations.

### Innovations in 2019

In 2019, 28 patents were submitted to protect knowledge and innovations. Many new products were brought to market in various countries, including Germany (Landliebe Mein Morgen), Greece (Noy-Noy cheese) and Romania (creamy yoghurt under the Napolact brand name). A new concept was developed in Africa designed to make nutrients available in an affordable format (Fristi milk porridge in Nigeria) and in 2019, various new dairy products were brought to market, including Susu Bendera infant nutrition in Indonesia. Chocomel was introduced in Germany and Hungary.
New sustainable packaging was introduced, such as recyclable cheese packaging. In the field of infant nutrition, an improved ingredient, 2-Fucosyl-Lactose, was introduced to the market.
A new Friso Gold was developed and launched with multiple innovations, including no sugar, with HMO, TrackEasy® and the new Nova's Signature Milk concept for improved digestion.

In addition to these innovations in the classical dairy product range, FrieslandCampina worked on other innovations, such as an improved, more user friendly Lattiz milk foam machine for the hospitality sector and Milqmor, a beverage developed for Chinese hospitality sector.
New concepts were developed for various partners, such as a Friesche Vlag milk foam capsule for a coffee machine and an improved dairy topping.
A milk protein concentrate for nutritional applications (RESANA®) and another one for markets in the Middle East (Kievit Monte DP580). Finally, FrieslandCampina developed vegetarian products for fast food chains (based on Valess).

### Process innovations

Process and recipe adjustments resulted in the better use of raw materials, process water and energy, in addition to a better nutritional composition of a large number of products globally. We increased energy efficiency by 3.8 percent to 2.79 GJ/tonne in comparison to 2018.

### Innovation and sustainability

FrieslandCampina's innovative strength was also used to reduce the environmental burden throughout the entire chain, from grass to glass. In the area of sustainability, the company works together with Wageningen University and other partners to reduce the volume of $CO_2$ and methane emitted by cows. In the context of the Winning with Climate & Nature programme FrieslandCampina developed a new digital solution that makes it possible to calculate the effect of sustainability measures on farms. Furthermore, FrieslandCampina developed a new packaging modelling instrument, Respackt, that converts knowledge and experience into an objective standard for sustainability and the reuse of packaging. One of the results of this was a new fully recyclable cheese packaging.

### Research

In 2019, as a follow-up to similar previous research, FrieslandCampina initiated its Southeast Asia Nutrition Surveys (SEANUTS II). In these large-scale nutritional surveys, more than twenty thousand children in Thailand, Malaysia, Indonesia and Vietnam ranging in age from six months to twelve years are surveyed from a nutritional, health and lifestyle perspective. FrieslandCampina works together with universities and knowledge institutions in the relevant regions for this purpose. The initiative forms part of the strategy designed to develop better nutritional products that comply with the latest scientific insights for infants and other groups.

In addition to such research, FrieslandCampina also likes to add value by contributing to other research or contributions. Dr Thom Huppertz, employed as Principal Scientist Food Structuring at FrieslandCampina, was appointed Special Professor Dairy Science & Technology at Wageningen University & Research.

## Excellent and affordable dairy for everyone

Access to basic nutrition is not self-evident for millions of people. FrieslandCampina focuses its efforts on affordable dairy for everyone; two examples from Indonesia and Nigeria.

View the full story online

## Resana® Activating Protein – a great deal of protein in a small packet

Elderly with a weak health system or people treated in a hospital require more nutrients for their recovery. With Resana® FrieslandCampina offers a solution designed to process a high dose of protein into small packets of medical nutrition.

View the full story online

### Foqus: quality and food safety

FrieslandCampina uses a standard quality system (Foqus) to safeguard safety and quality throughout the entire chain, from livestock farming to distribution. Foqus offers consumers, customers and governments the guarantee that products and production processes comply with the strict quality and safety criteria. FrieslandCampina has its own quality inspection teams and also makes use of independent external bodies. Thanks to Foqus, FrieslandCampina complies with all relevant national and international regulations and standards for food quality and safety, such as HACCP, ISO 9001 and FSSC 22000.

## Key innovations in 2019

| | |
|---|---|
| 1. Medical nutrition | **RESANA®, a new milk protein concentrate** |
| 2. Transparency | **Friso TrackEasy® (China)** |
| 3. Affordable nutrition | **Peak yoghurt drink (Nigeria)** |
| 4. 24/7 availability for customers | **Landliebe Mein Morgen, yoghurt and yoghurt beverages with fruit and cereals for a convenient breakfast** |
| 5. Sustainable packaging | **pLESStic, fully recyclable cheese packaging** |

### Responsible marketing communications and labelling

To eat and drink healthy, adults and children must have access to responsible options. This means that advertising aimed at children up to twelve years of age is only permitted for products that meet strict nutritional criteria, thus stimulating the choice for healthier nutrition. FrieslandCampina supports codes of conduct in this domain, such as the EU Pledge: a voluntary initiative of European food companies for responsible advertising aimed at children. In 2019, 99.1 percent (2018: 98.8 percent) met these conditions. FrieslandCampina's brand websites meet the EU Pledge commitments 100 percent. FrieslandCampina provided clear and honest information about nutritional values on its packaging as a means of encouraging consumers to make healthy choices.

### Education about a healthy diet and sufficient exercise

FrieslandCampina invested in creating awareness of a healthy lifestyle among consumers by making knowledge and resources available. In Vietnam, Thailand, Indonesia, Malaysia, Singapore and the Philippines the Drink.Move.

BeStrong campaign assisted parents and teachers in creating awareness among children of the need to exercise sufficiently indoors and outdoors, eat responsibly and live a healthy life. Parents and children also received information about a healthy diet and an active lifestyle, for example through World Milk Day, school milk programmes, Goodness of Dairy campaigns, and the Youth at a Healthy Weight (JOGG) and Everyone Fit at School programmes. The FrieslandCampina Institute offers nutrition and health professionals in various countries and via various communication channels. In 2019, it did this in various countries and through means of various communication channels, such as the FrieslandCampina Institute's website.

### Access to nutrition

Not everyone has daily access to sufficient nutrients. FrieslandCampina wants to contribute to as many people as possible, especially people with a lower income, having access to healthy nutrition, in particular, dairy products. This programme looks at availability, prices and packaging. In addition, FrieslandCampina has developed Affordable Nutrition Standards (AFS) that guarantee that the products specifically developed for people with a lower income contain the right nutrients for combatting undernourishment. An example of this is the introduction of Fristi milk porridge in Nigeria.

At the end of 2019, a baseline measurement was initiated in six countries to assess the extent to which our product offering is aimed at lower income groups and whether these products comply with the AFS. An example of affordable portions of concentrated dairy for this target group are the Peak 'sachets' that have been available in Nigeria for the past few years.

In addition to making food and milk affordable and available, giving food aid also continued to be necessary. For example, in the Netherlands, FrieslandCampina collaborated with Food Banks. In other European countries, Asia and Africa food aid took the form of various school milk programmes. Furthermore, FrieslandCampina also contributed to research into undernourishment.

### Access to Nutrition Index

Every two years, the Access to Nutrition Index (ATNI) identifies the contribution of global food producers to making better nutrition available. In 2018, FrieslandCampina rose from eighth position to fourth position and as such had the highest gain on this index. A new audit will be conducted in 2020. For more information: see ATNI's website.

Dilemma

# Dairy and plant-based beverages

Dairy forms FrieslandCampina's core. In accordance with our purpose *nourishing by nature*, we aim for a product portfolio with a high nutritional value and at the same time a relatively low environmental impact, that supports biodiversity and enhances animal welfare.

At FrieslandCampina we actively monitor consumer trends. We are observing opposing dairy consumption trends. In some parts of the world we are seeing an increased focus on plant-based alternatives, while in other regions dairy consumption still continues to increase. On a worldwide basis, the share of plant-based products constitutes 4 percent of the entire dairy segment (source: Euromonitor). Due to its unparalleled nutritional density, dairy plays an important role in feeding the growing world population. We are convinced that dairy will also continue to play this role for the coming generations.

We constantly aim to meet the needs of our customers and consumers in their search for nutritious ingredients. This is why we are also actively looking at the benefits of sources other than dairy, such as plant-based ingredients. We have already incorporated these into our portfolio, which results in the creation of hybrid, as well as pure plant-based products. We will continue to aim for products with optimal nutritional value, to enable us to offer the world better nutrition and at the same limit our impact on the environment to a minimum.

# Reducing the salt content in cheese: finding the balance between healthy and tasty feels like a tense marriage

**Interview with Tom van Hengstum (Director Technology & Innovation Dairy Essentials) and Petra Dekker (Corporate Manager Nutrition & Health)**

FrieslandCampina with quality dairy aims to make a contribution to healthy and sustainable nutrition for everyone, now and for generations to come. But aside from the quality aspect, the dairy must also taste good, have a sufficiently long shelf life and must meet functional requirements. Petra Dekker and Tom van Hengstum tell us how they find the right balance here on the basis of the cheese salt reduction programme.

Petra: "Tom determines the limits of what is technically feasible and I try to get the most out of this in terms of health. Ultimately we always work it out together."

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FrieslandCampina adds as much value as possible to milk so as to maximise its contribution to member dairy farmers' incomes and to the continuity of their dairy farms. This value creation becomes evident in the level of the performance premium and the issue of member bonds, which are paid on top of the guaranteed price member dairy farmers receive for their milk. The value creation is dependent on the company's performance. In addition, the company supports local dairy farms in Asia, Africa and Eastern Europe in improving their farm management, milk quality and productivity. FrieslandCampina is aware of its responsibility towards its member dairy farmers. In 2019, member dairy farms experienced a considerable drop in income due to higher costs, particularly feed costs, while incomes remained the same.

# A good living for **our farmers**

# A good living for our farmers

| In millions of euros, unless stated otherwise | 2019 | 2018 | Δ% |
|---|---|---|---|
| **Results** | | | |
| Revenue | 11,297 | 11,553 | -2.2 |
| Revenue before currency translation effects | 11,144 | 11,553 | -3.5 |
| Operating profit | 432 | 342 | 26.3 |
| Operating profit before currency translation effects | 418 | 342 | 22.2 |
| Profit | 278 | 203 | 36.9 |
| Profit before currency translation effects | 274 | 203 | 35.0 |
| Operating profit as a percentage of revenue | 3.8 | 3.0 | |
| **Balance Sheet** | | | |
| Balance sheet total | 9,049 | 8,823 | 2.6 |
| Equity attributable to the shareholder and other providers of capital | 3,399 | 3,209 | 5.9 |
| Equity as a percentage of the balance sheet total[1] | 38.5 | 36.4 | |
| Buffer capital as a percentage of the balance sheet total[1, 2] | 16.6 | 14.8 | |
| Net debt[1, 3] | 1,067 | 1,287 | -17.1 |
| **Cash Flow** | | | |
| Net cash flow from operating activities | 567 | 619 | -8.4 |
| Net cash flow from investment activities | -185 | -490 | 62.2 |
| Net cash flow from financing activities | -340 | -101 | -236.6 |
| **Investments** | 397 | 461 | -13.9 |

| | 2019 | 2018 | Δ% |
|---|---|---|---|
| **Member dairy farmers** | | | |
| Number of member dairy farms at year-end | 11,476 | 12,104 | |
| Number of member dairy farmers at year-end | 17,413 | 18,261 | |
| Milk supplied by member dairy farmers (millions of kilos) | 10,020 | 10,375 | -3.4 |
| Total compensation member dairy farmers | 3,871 | 3,933 | -1.6 |
| **Value creation for members dairy farmers[4]** | | | |
| Guaranteed price | 35.66 | 36.05 | -1.1 |
| Performance premium | 1.07 | 0.46 | |
| Meadow milk premium[5] | 0.65 | 0.63 | |
| Special supplements[6] | 0.26 | 0.16 | |
| Cash price | 37.64 | 37.30 | 0.9 |
| Reservation of member bonds | 0.31 | 0.13 | |
| Milk price | 37.95 | 37.43 | 1.4 |
| Interest on member bonds | 0.47 | 0.45 | |
| Retained earnings | 1.58 | 0.72 | |
| Performance price | 40.00 | 38.60 | 3.6 |
| **Dairy Development Programme[7]** | | | |
| Number of local farmers who participate in a training programme | 77,934 | 80,216 | |

1 2019 figures are adjusted for the effect of the new rules for the administrative processing of leases (IFRS 16).
2 Buffer capital is the equity attributable to the shareholder.
3 The net debt concerns current and non-current interest-bearing borrowings, payables to Zuivelcoöperatie FrieslandCampina U.A. less the cash and cash equivalents at the company's free disposal.
4 In euros per 100 kilos of milk, exclusive of VAT, in case of 3.47% protein, 4.41% fat and 4.51% lactose.
5 Dairy farmers applying pasture grazing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2019. An amount of 1.00 euro per 100 kilos of meadow milk is paid from the operating profit. On average, on all FrieslandCampina member milk, this amounted to 0.65 euro per 100 kilos of milk. Furthermore, another 0.50 euro per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euro per 100 kilos of milk is withheld from all milk. This also pays for the partial pasture grazing premium.
6 Special supplements concern the total amount of payments per 100 kilos of milk, for example for Landliebe milk, of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (47.35 euros) and the guaranteed price (35.66 euros) per 100 kilos of milk. On average, on all FrieslandCampina member milk, this amounted to 0.26 euro per 100 kilos of milk.
7 All figures concern countries where DDP is active.

### Slight decline in revenue

The decline of 2.2 percent in revenue is primarily attributable to a 3.4 percent decrease in the milk supply in comparison to 2018 as a result of a decline in the number of member dairy farms. As a result of a shortage in lactoferrin and unrest in Hong Kong in the second half of the year, the Specialised Nutrition business group's revenue also declined. By contrast, the Consumer Dairy and Ingredients business groups experienced an increase in revenue; the revenue of consumer brands in particular increased by 5.4 percent. The revenue from added value products increased by 1.9 percent in comparison to 2018. The cost of goods sold decreased by 2.9 percent to 9,477 million euros (2018: 9,761 million euros).

### Operating profit and profit rose

The operating profit increased by 26.3 percent to 432 million euros in 2019 (2018: 342 million euros). As a result of the increase in the operating profit, profit increased by 36.9 percent to 278 million euros. The higher profit is in part due to an increase in the revenue from added-value products and due to one-off gains, such as the sale of the activities of our creamy liqueur producer Creamy Creation and the sale of the equity interest in Royal CSK Food Enrichment C.V. If we leave the one-off revenue from the sale of business units out of consideration, the operating profit grows by 7 percent. The companies acquired at the end of 2018 in Spain, the Netherlands and the United States were successfully integrated and contributed to revenue and profit.
A significant number of operating companies achieved brand growth. However, in the home markets (The Netherlands, Germany and Belgium) growth and profitablity remained under pressure.

In the second half of 2019, profit declined slightly in comparison to the first half of the year, in part due to the unrest in Hong Kong as a result of which there was a decline in the sale of infant nutrition. In China, profit declined somewhat due to a lower birth rate, increased competition, particularly by local players, and a shortage of the protein lactoferrin. Through a new joint venture with United Dairymen of Arizona (UDA), the planned supply of lactoferrin for 2020 is at the desired level.

## Chocomel and Pöttyös successful in Europe

It is impossible to imagine coffee breaks and eating times in the Netherlands, or in a Belgium café, without Chocomel. In Germany, Chocomel has grown from a regional to a national brand. In Hungary, it was introduced under the well-known brand name Pöttyös. Existing products and strong brands are used this way to strengthen our position in other countries.

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## More value from basic dairy with Mozzarella

FrieslandCampina aims to get more out of its basic dairy products. One of its priorities is accelerating the growth of cheese and making it more profitable. Mozzarella is a key product with high growth potential. It is a specialty with many useful applications.

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Favourable currency translation effects contributed 4.1 percent to the operating profit.

FrieslandCampina invested 560 million euros in advertising and promotions. This is 3.7 percent more than in 2018, primarily driven by focused higher investments in China and in our Consumer Dairy brands in Asia.

Selling and general administrative costs increased by 48 million euros in comparison to last year as a result of currency translation effects (6 million euros), incidental charges (19 million euros) and acquisitions (7 million euros). Corrected for these special effects, the increase is 16 million euros and this is caused mainly by inflation and the increase in the number of sellers in growing markets.

**Improvement programmes**
The processes at different production facilities were reviewed in the context of the World Class Operations Management (WCOM) programme, part of Supply Chain Unlock, which resulted in various improvements and cost savings. Thanks to the Focus on Reducing Costs Everywhere (FORCE) programme, cost reductions were implemented in various areas, such as software licenses, travel and the use of temporary employees.

### Profit appropriation

Of the 278 million euro profit in 2019, 64 million euros was attributed to non-controlling interests (2018: 73 million euros). The Executive Board proposes to add 158 million euros to the retained earnings (2018: 74 million euros). The remaining profit was appropriated as follows: 48 million euros is reserved for the interest payment to holders of member bonds (2018: 47 million euros) and 8 million euros is reserved for the interest payment on the cooperative's loan to the company (2018: 9 million euros).

### Increase in operating cash flow

The cash flow from operating activities decreased by 52 million euros to 567 million euros (2018: 619 million euros), primarily due to higher stock valuations. In 2019, the outbound cash flow for investments and acquisitions amounted to 185 million euros (2018: 490 million euros). 397 million euros was invested in production capacity, and in efficiency and quality improvements (2018: 461 million euros) and the sales proceeds from business units amounted to 168 million euros.
The cash flow from financing activities amounted to -340 million euros (2018: -101 million euros). This is the balance of the dividends paid to non-controlling interests, interest for member bonds the use of the credit facility and the lease payments made. The balance of cash and cash equivalents and bank current accounts increased from 224 million euros (year-end 2018) to 278 million euros (year-end 2019).

### Strengthening the organisation and its market position

In 2019, FrieslandCampina signed an agreement with Royal A-ware for the production of mozzarella. In April 2019, FrieslandCampina acquired the operations of W. Bakker Kaashandel B.V., for cutting, processing and packaging cheese. In October 2019, FrieslandCampina acquired an interest of 60 percent in a joint venture with United Dairymen of Arizona for the production and supply of lactoferrin.

### Strengthened financial position

The net debt[1] amounted to 1,067 million euros as at 31 December 2019. This represents a 220 million euro decrease in comparison to year-end 2018. The buffer capital (equity attributable to the shareholder) was higher due to the addition of the retained earnings and amounted to 1,463 million euros. As a percentage of the balance sheet total[1], the buffer capital increased from 14.8 percent to 16.6 percent.

1 Adjusted for the effect of the new rules for the administrative processing of leases (IFRS 16).

The equity attributable to the shareholder and other equity providers increased to 3.4 billion euros (2018: 3.2 billion euros). This was due to the addition of the retained earnings, the issue of member bonds and due to the currency conversion differences of foreign participations, offset by the revaluation of the commitments for defined benefit plans.
Solvency, defined as the equity attributable to the shareholder and other providers of capital as a percentage of the balance sheet total[1], increased to 38.5 percent (2018: 36.4 percent), primarily due to the higher equity.

As at 31 December 2019, the total equity, including non-controlling interests, amounted to 3.8 billion euros (year-end 2018: 3.6 billion euros).
The return on the invested capital (operating profit based on the guaranteed price divided by the average invested capital[1], including goodwill), amounted to 10.3 percent (2018: 7.6 percent). The increase in comparison to 2018 was due to the higher operating profit.

### Financing

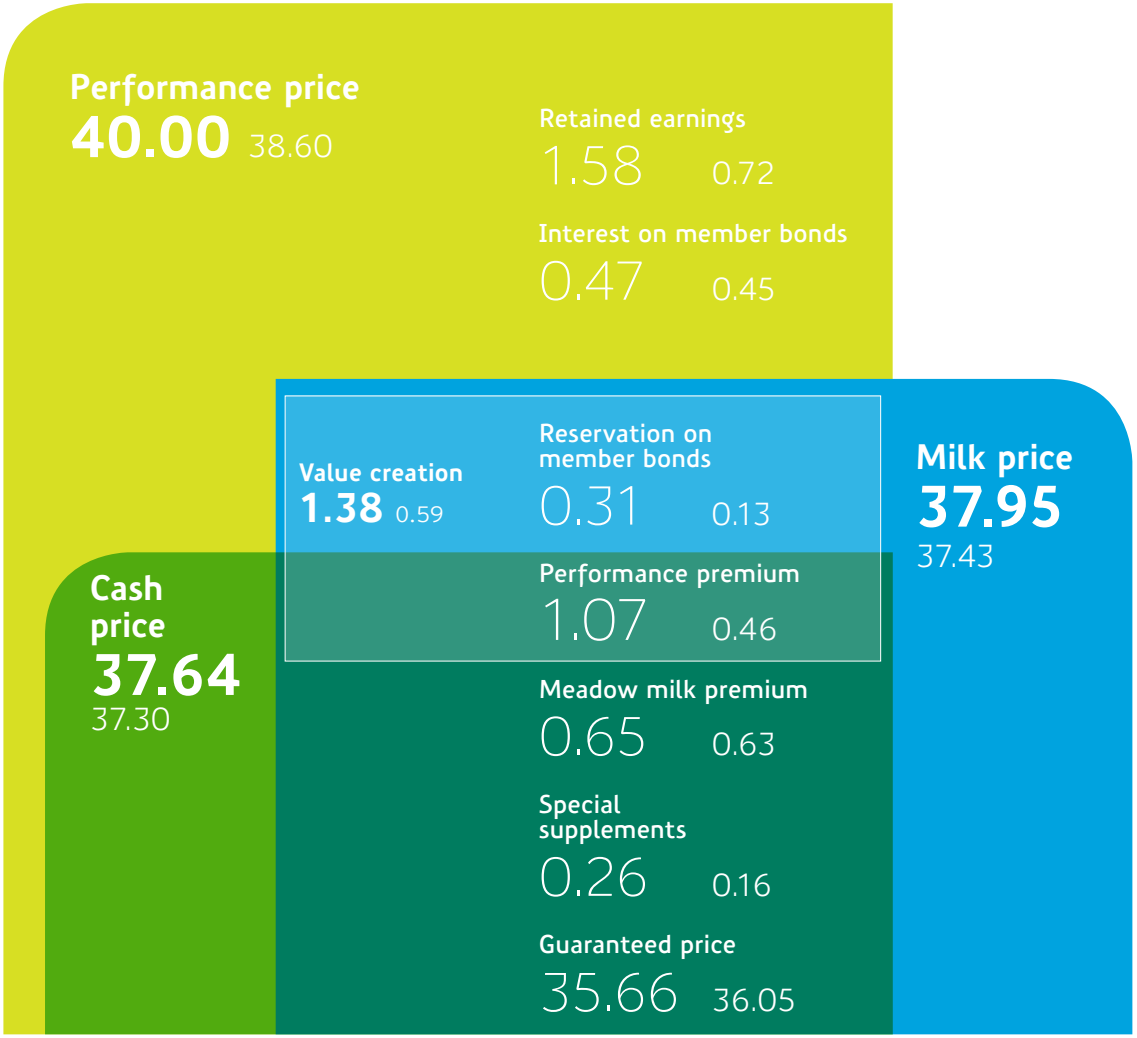
FrieslandCampina made use of loans from member dairy farmers, banks, investors and development banks.

### Value creation increased

Over 2019, in addition to the FrieslandCampina guaranteed price, a total of 138 million euros was paid to member dairy farmers (2018: 62 million euros). Of this, 107 million euros (1.07 euro per 100 kilos of milk) was allocated to the performance premium. The issue of member bonds over 2019 amounted to 31 million euros (0.31 euro per 100 kilos of milk). In total, the value creation (performance premium and the issue of member bonds) per 100 kilos of milk amounted to 1.38 euros (2018: 0.59 euro). The increase is due to the higher result.

## Milk price and performance price

In euros per 100 kilos of milk for 800,000 kilos of milk per year
(exclusive of VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)




The FrieslandCampina milk price for member dairy farmers over 2019 increased by 1.4 percent to 37.95 euros per 100 kilos of milk (2018: 37.43 euros). The FrieslandCampina guaranteed price over 2019 was 35.66 euros per 100 kilos of milk, a decrease of 1.1 percent compared to 2018 (36.05 euros). The decrease in the guaranteed price was the result of lower milk prices of the reference companies. The premium for special supplements was 0.26 euro (2018: 0.16 euro). Distributed across all forms of milk, the meadow milk premium amounted to 0.65 euro per 100 kilos of milk (2018: 0.63 euro).

FrieslandCampina's organic milk price over 2019 was 49.73 euros per 100 kilos of milk (2018: 49.05 euro). FrieslandCampina's organic milk guaranteed price was 47.35 euros per 100 kilos of milk (2018: 47.46 euros). The performance premium and the issue of member bonds were the same as for regular milk.

On 1 September 2019, FrieslandCampina distributed an interim payment of 0.65 euro per 100 kilos of milk to member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. This was 75 percent of the pro forma performance premium over the first half year (0.33 euro per 100 kilos of milk over the entire year). The final settlement will be effected in March 2020, based on FrieslandCampina's results for the year and the quantity of milk supplied by dairy farmers in 2019. The performance premium over 2019 amounted to 1.07 euros per 100 kilos of milk. The member dairy farmers therefore will still receive a performance premium of 0.74 euro per 100 kilos of milk.

The total interest paid on member bonds in 2019 rose to 48 million euros (2018: 47 million euros). This was due to the increased number of bonds. The interest rate over the period 1 January to 31 May 2019, was 2.997 percent. The interest rate over the period 1 June to 30 November 2019 was 3.003 percent, while the interest rate in the month of December 2019 was 2.903 percent (the interest rate on the six-month Euribor for December 2019 was -0.347 percent). The average interest paid per 100 kilos of member milk was 0.47 euro (2018: 0.45 euro).

**Decrease in the milk supplied by members**

In comparison to last year, the milk supplied by member dairy farms in 2019 decreased by 3.4 percent to 10,020 million kilos of milk (2018: 10,375 million kilos). This decrease was mainly caused by a decrease in the number of milk-supplying member dairy farms. In addition, the effects of the phosphate regulation and the dry summer months also played a role.

## Updating the guaranteed price calculation

During the Members' Council meeting of 17 December 2019, Members' Council members voted to accept bringing the calculation of the guaranteed price up to date. By stacking premiums, the FrieslandCampina guaranteed price threatened to become no longer market competitive over time. By no longer incorporating the deductions and premiums of reference companies for pasture grazing, VLOG, sustainability and non-milk-related allowances in the calculation of the guaranteed price effective from the beginning of 2020, FrieslandCampina will also be maintaining a market-based guaranteed price in the future.

**Standard concentrations updated**

Up to and including 2019, the guaranteed price was published for 100 kilos of milk at 3.47 percent protein, 4.41 percent fat and 4.51 percent lactose. These standard concentrations were established in 2008 at the time of the merger and have not been changed since. Over recent years, milk has gradually become more protein-rich, contains less fat, while lactose content has increased. As a result, the difference between the published guaranteed price and the actually paid milk price has steadily increased. To correct this, effective from the beginning of 2020, the standard concentrations will be adjusted in accordance with the actually delivered concentrations in 2019. The standard concentrations that apply effective from 2020 are 3.57 percent protein, 4.42 percent fat, and 4.53 percent lactose. This content is evaluated every three years as part of the milk price regulation.

**Guaranteed price for members**

The guaranteed price is the price FrieslandCampina pays members for the milk they supply. The company has two guaranteed prices: one for regular farms and one for organic and organic dynamic farms. In both cases, the guaranteed price is the price the company guarantees it will pay members for the milk they supply. The guaranteed price is calculated on the basis of the average prices of reference companies in Northwest Europe. The price is based on public sources and is established independently of FrieslandCampina's result.

## Sharing knowledge for greater prosperity through the Dairy Development Programme

FrieslandCampina has almost 150 years of dairy experience and uses its expertise in various ways, for example through the Dairy Development Programme, to support local dairy farmers in sustainably developing their dairy farm.

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### Dairy Development Programme

FrieslandCampina, through the Dairy Development Programme (DDP), in eight countries in Asia, Africa and Eastern Europe supported local dairy farmers in improving the quality of their milk, increasing the productivity per cow and securing access to the market. This was accomplished with the use of the company's own employees and member dairy farmers, often in cooperation with other partners. This meant that a local dairy farmer could receive more money for his milk and ensure himself of a higher income. In addition to a constant local higher quality milk supply for the production of dairy products, DDP contributes to maintaining and improving the relationship with local governments and other stakeholders.

In 2019, 77,934 (2018: 80,216) local farmers participated in training programmes in the context of the DDP in Nigeria, Vietnam, Thailand, Malaysia, Indonesia, Pakistan and Romania. The number of local farmers who directly or indirectly formed part of the DDP was more than 250,000. In addition, FrieslandCampina measured the extent to which dairy farms in DDP countries complied with the Good Dairy Farming Practices of the United Nations Food and Agriculture Organisation (FAO). Of a focus group of 427 dairy farms in Vietnam, Indonesia, Thailand, Malaysia, Pakistan and Romania 50 percent scored at least 'satisfactory'. This is 14 percent less than in 2018. In 2019, Pakistan and Romania also started scoring a selected group of farmers in respect of the Good Dairy Farming Practices. Since these farmers are in a different stage of development, this explains the drop in the average score.

### DDP in 2019

- Four master farms were built in Nigeria in the context of the Sustainable Farming Facility and Food Security (FDOV) programme (forty cows in total, four farmers). These farms are a new concept in Nigeria and serve as an example for nomadic farmers and others.
- This past year, during twenty five advisory missions, eighteen employees and sixteen member dairy farmers from FrieslandCampina provided advisory services to twenty dairy cooperatives, among others, on behalf of FrieslandCampina and its partner organisation Agriterra.
- The Sino-Dutch Dairy Development Centre celebrated its sixth anniversary. Two new Chinese partners were welcomed (Niuniu and Yantang).

Dilemma

# Child labour versus family labour and/or supporting poor families

Worldwide, approximately 1 billion people depend on dairy farming for their income. As one of the largest dairy companies, FrieslandCampina considers it its responsibility to ensure that farmers generate sufficient income with which they can realise a positive future for themselves, as well as their children. Not only within the Netherlands, but also in less developed countries.

By means of the Dairy Development Programme (DDP), we contribute to food security in Asia, Africa and Eastern Europe and help local dairy farmers to produce and market milk in a more sustainable manner and thus improve the position of dairy farmers and their families.

In the dairy farming sector it can happen that children help their parents with certain tasks on the farm. For children this often forms part of growing up in a rural environment. In the Netherlands and elsewhere this is never permitted to hinder their participation in schooling, nor may it limit their free time too much. Especially within the agricultural sector, the International Labour Organization (ILO) recognises that some participation by children in light, non-dangerous activities can be a positive thing, because it contributes to the transfer of technical and social skills among generations and can improve food security for children. Improved self-confidence, self-respect and work skills are characteristics that are often detected among young people involved in certain aspects of the agricultural sector.

FrieslandCampina realises that throughout the world, agriculture is a sector with a relatively high risk of child labour. We make a distinction between family labour (light tasks that do not harm the child in any way) and child labour (work that disrupts compulsory schooling and that damages health and personal development, on the basis of hours worked and working conditions, the child's age, the activities performed and existing dangers). Child labour is not tolerated by FrieslandCampina.

In 2019, FrieslandCampina adopted a Human Rights Policy. This policy will be rolled out in 2020. Initially, involved managers will be trained and a human rights risk analysis will be carried out. If there is reason to suspect human rights violations, these suspected violations will be investigated – if necessary by an external party. Effective from 2020, in the context of the DDP, more attention for human rights themes will be phased in through means of education and training.

## Consumer Dairy

The Consumer Dairy business group provides consumers throughout the world with dairy products, such as milk, yoghurt, condensed milk, dairy-based beverages, cheese, butter and cream. For professional customers, such as bakers, pastry chefs, chocolate confectioners, chefs and caterers, Consumer Dairy offers a broad product range of creams, butter, desserts and fillings.

The revenue from brand products grew by 5.4 percent

- The revenue from brand products grew by 5.4 percent. The transformation initiated in 2018 with the key objective of increasing growth bore fruit.
- The operating profit rose by 29 percent in comparison to 2018, in part supported by one-off gains and currency translation effects.
- Revenue in most countries increased.
- In Pakistan, the revenue of the consumer brands Olpers and Tarang reached double-digit growth figures in a volatile market. Profit still lags behind.
- In Africa, particularly in Nigeria, there was a strong growth in sales volume.
- In most Asian countries the sale of milk products increased, especially dairy-based beverages.
- Sale volumes in Eastern and Southern Europe also increased, particularly in Hungary and Romania.
- In Western Europe where dairy consumption continued to be under pressure, revenue dropped, while brands such as Campina, Chocomel and Landliebe experienced growth. A firm increase of material and logistic costs put a pressure on the results.
- In the Netherlands the further introduction of dairy with the 'On the way to PlanetProof' quality label was a success in 2019.
- The sale of branded cheese in particular grew. The cheese-related acquisitions made at the end of 2018 (Millán Vicente, Best Cheese and Jana Foods) have been fully integrated.

### Results[1]

| | | |
|---|---|---|
| Revenue third parties | 5,867 | 5,612 2018 |
| Revenue before currency translation effects | 5,764 | 5,612 2018 |
| Operating profit | 289 | 224 2018 |
| Operating result as % of revenue third parties | 4.9 % | |

[1] In millions of euros, unless stated otherwise

## Specialised Nutrition

The Specialised Nutrition business group supplies nutrition to specific consumer groups, such as children, the elderly and sportspeople. For young children who are entirely dependent on reliable nutrition with a unique combination of nutrients, for adults in various stages of their lives and for sportspeople for whom sports nutrition is a key factor in their performance.

- Lower revenue and profit in China due to declining volumes, lower birth rate, higher raw material costs and increased market investments.
- The Friso Gold brand experienced difficulties in China due to generally declining volumes in the premium market segment as a result of the shift in demand to ultra premium infant nutrition.
- The Friso Prestige brand was affected by limited product availability in the ultra premium segment. A global shortage of lactoferrin resulted in lower sales in China. This problem has since been solved due to a new joint venture with the American dairy cooperative United Dairymen of Arizona (UDA).
- In Hong Kong sales and revenue of Friso infant nutrition grew in the first half of the year. The persistent unrest in the second half of 2019 resulted in a considerable decrease in sales volume, however.
- Higher infant nutrition sales volume and revenue in Indonesia, the Middle East, Nigeria and export markets. New products in the economy segment (Susu Bendera) made infant nutrition more affordable.
- Successful launch of TrackEasy®, that allows Asian consumers to track the origin of Friso infant nutrition down to the farm level.

Lower revenue and profit due to declining volumes, higher raw material costs and market investments

### Results[1]

**Revenue third parties**

1,205 1,246 2018

**Revenue before currency translation effects**

1,170 1,246 2018

**Operating profit**

260 346 2018

**Operating result as % of revenue third parties**

21.6 %

[1] In millions of euros, unless stated otherwise

# Ingredients

The Ingredients business group supplies dairy-based ingredients. These ingredients offer added value to producers of infant nutrition and foods, to the pharmaceutical industry and to producers of animal feeds. The business group works closely together with its customers and focuses on nutrition for children and the elderly, and on medical nutrition.

- Revenue increased by 2.2 percent primarily due to price increases to offset the heightened increase in raw protein prices.
- Volumes were under pressure due to the breakout of swine fever in Asia and a decline in demand by the infant nutrition market.
- Growth in medical, sports and elderly nutrition.
- In Borculo (NL), the construction of a new pasture-protein processing plant for sports and elderly nutrition was successfully completed.
- Lower volume and lagging operating results within the supply chain resulted in disappointing results.
- The activities of creamy liqueur producer Creamy Creation BV were sold and this resulted in a one-off book profit of 21 million euros.

Growth in medical, sports and elderly nutrition

## Results[1]

**Revenue third parties**

1,773 1,734 2018

**Revenue before currency translation effects**

1,758 1,734 2018

**Operating profit**

173 213 2018

**Operating result as % of revenue third parties**

9.8 %

[1] In millions of euros, unless stated otherwise

# Dairy Essentials

The Dairy Essentials business group produces and sells Dutch cheeses, such as Gouda, Edam and Maasdam, and a wide range of foreign cheeses, different types of butter and milk powders for professional and industrial customers. This business group is responsible for allocating all incoming milk with the objective of realising the highest possible return for the Company.

- Decline in revenue driven by lower basic dairy prices and reduced milk processing.
- Significant improvement of operating profit in comparison to 2018.
- Improvement of the product mix through added value products, such as cheese, and a reduction in less profitable products, such as basic milk powders and the sale of milk on the spot market.
- Increase in customers, new markets and cheese concepts for industrial, as well as retail customers, drive growth in cheese. Introduction of Fat Filled Milk Powder for industrial customers resulted in initial improvement of basic milk powders.
- In 2019, the average sale prices improved in comparison to the market index for basic dairy prices.
- Optimisation of costs in the supply chain.
- The sale of the majority interest (82.3%) in Royal CSK Food Enrichment C.V. resulted in a one-off improvement in operating profit.
- New partner contracts contribute to a more efficient network for milk processing and result in expansion of the portfolio. Partnership agreements for the production of mozzarella, among other things, were signed with the DMK Group and Royal A-ware.
- The introduction of a new technology to limit water consumption contributed to improving the sustainability of production locations.
- The introduction of the first fully recyclable packaging for cheese.

Significant improvement of operating profit in comparison to 2018

## Results[1]

**Revenue third parties**

**2,449** 2,947 2018

**Operating profit**

**-39** -203 2018

**Operating result as % of revenue third parties**

**-1.6** %

[1] In millions of euros, unless stated otherwise

# Deep understanding of consumer needs **is the key to market success**

One of FrieslandCampina's objectives is to add as much value as possible to milk to generate a good living for our dairy member farmers. At the same time, consumers and customers demand greater efforts and more differentiation from both dairy farmers and FrieslandCampina. Such as different milk streams – quality labels like 'On the way to PlanetProof', VLOG (non-genetically modified) and organic come to mind here. FrieslandCampina is expected to ensure that the production of milk becomes more sustainable – from farm to production location and from procurement to end product. From "grass to glass". How can we translate these challenges into market opportunities? Frans Keurentjes, Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A., discusses this with 3 Managing Directors of FrieslandCampina; Bas Roelofs (The Netherlands), Jan Kruise (Germany, Austria, Switzerland) and Maurits Klavert (Indonesia).

View the full interview online

**Bas Roelofs**
Managing Director
The Netherlands

**Frans Keurentjes**
Chairman of the Board
of Zuivelcoöperatie
FrieslandCampina
U.A.

**Jan Kruise**
Managing Director
Germany

**Maurits Klavert**
Managing Director
Indonesia

Frans Keurentjes: "The chain works in two directions – we're not only translating what the customer and consumer want back into the chain, we also valorise the efforts of member dairy farmers into the market."

FrieslandCampina aims to fulfil a leading role in sustainability within the dairy sector. This is why the company has been working together with member dairy farmers for years on reducing its ecological footprint. This includes the reduction in energy consumption and $CO_2$ emissions, and sustainable solutions for processing milk, such as packaging that counteracts food wastage. In addition, member dairy farmers are working on continuously improving biodiversity, animal health and animal welfare.

# Now and for generations to come

| | 2019 | 2018 | Δ% |
|---|---|---|---|
| **Sustainable Production** | | | |
| Greenhouse gas emissions from production and transport (kt $CO_2$ equivalent)[1] | 723 | 809[2] | -10.6 |
| Green electricity (percentage of total electricity consumed at production facilities) | 94 | 90 | |
| Energy consumption (GJ/tonne product) | 2.79 | 2.90[3] | -3.8 |
| Water consumption ($m^3$/tonne end product) | 4.96 | 5.09[4] | -2.6 |
| Percentage recyclable plastic packaging (plastic suitable for sorting and recycling systems)[5] | 33 | | |
| **Sustainable procurement of raw materials** | | | |
| Sustainable agricultural raw materials (percentage of total volume of raw materials) | 87 | 77 | |

| | 2019 | 2018 | Δ% |
|---|---|---|---|
| **Dairy Farming** | | | |
| Greenhouse gas emissions by member dairy farms (kt $CO_2$ equivalent) | 11,964 | 12,398[2] | -3.5 |
| Pasture grazing (percentage of total number of member dairy farms in the Netherlands applying a form of pasture grazing) | 83.0 | 81.2 | |
| **Attractive employer** | | | |
| Percentage of women in management positions | 25.9 | 22.7 | |
| **Safety** | | | |
| Accident ratio (number of accidents per 200,000 hours worked) | 0.35 | 0.37 | |

1 Inclusive of purchase of $CO_2$ rights. Exclusive of purchase of $CO_2$ rights: 1,169 kt $CO_2$ equivalents (2019), 1,185 kt $CO_2$ equivalents (2018).
2 The 2018 figure has been adjusted. The emission factors for milk, milk powder and whey for NL, DE and BE have been adjusted retroactively to account for the adjusted sector model. The EU and global emission factors have also been updated due to the new FIA report concerning the emissions associated with milk production.
3 Based on adjusted volume in line with applicable volume definition.
4 2018 figure has been adjusted, the scope was expanded to include all of FrieslandCampina.
5 New KPI in 2019, no comparative figure available. Figure is exclusive of Ingredients business group, the Growth Markets & Global Accounts and China. departments, and the cheese production facilities. The aim is to add this in 2020.

# Materiality Matrix

FrieslandCampina applies the materiality principle to determine which issues should be included in the reporting that are relevant to FrieslandCampina and its stakeholders. A materiality exercise is carried out every two years for this purpose, with which the most important stakeholder groups are identified. In 2019, FrieslandCampina conducted a new materiality analysis for which stakeholders were approached. Based on the outcome of these surveys, a materiality matrix is prepared that visualises the internal and external prioritisation (see illustration). The closer the subjects are to the upper right corner, the more material they are for FrieslandCampina. The material issues form the basis of FrieslandCampina's Sustainability strategy. Carbon footprint is the most relevant topic to stakeholders, followed by Innovation, Milk Price, Nature & Biodiversity and healthy products with nutritional value.
For background and additional information about this matrix, see page 190.

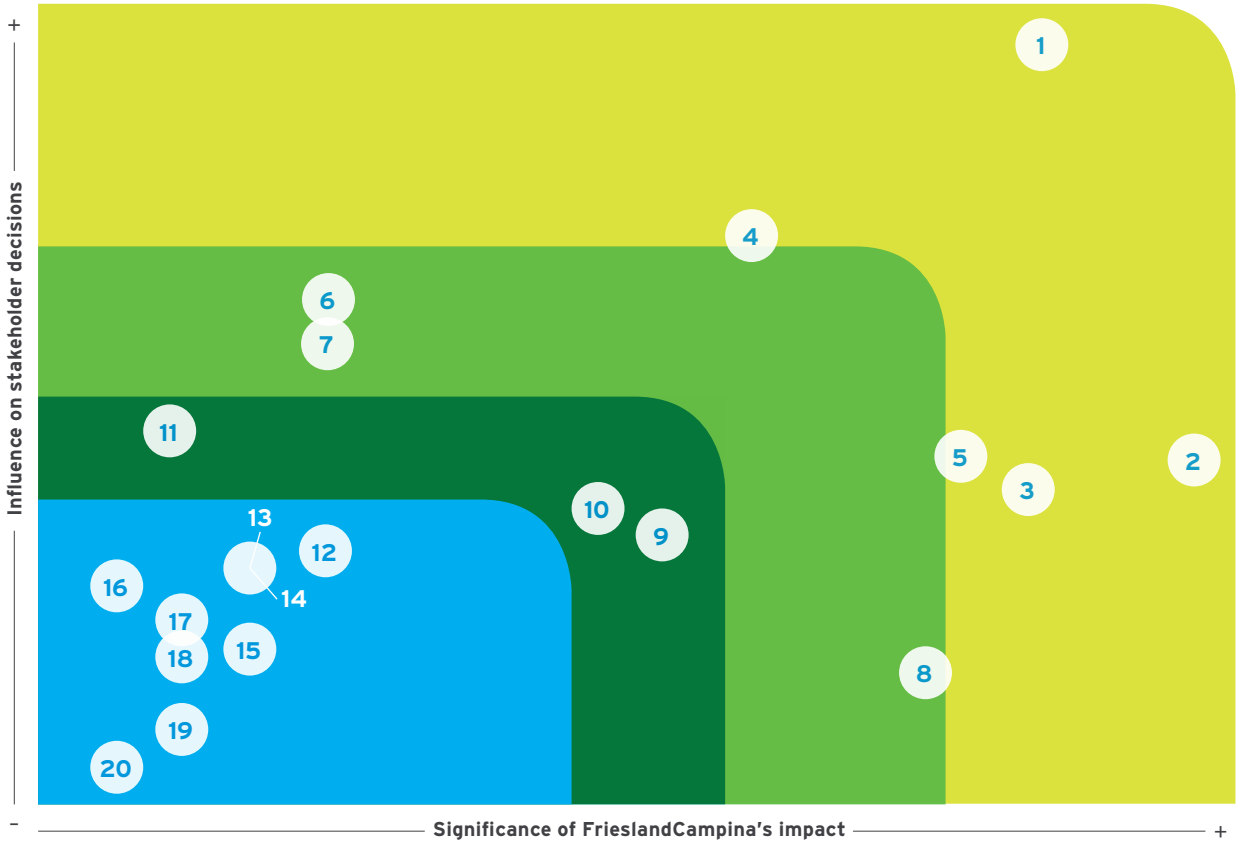
**Material topics**

1 Carbon footprint
2 Innovation
3 Milk price
4 Nature & biodiversity
5 Nutrional & healthy productivity

6 Product quality and safety
7 Animal health & welfare
8 Attractive employer

9 Packaging
10 Supply chain management
11 Sourcing

12 Energy usage & efficiency
13 Support for local dairy farmers in Asia, Africa and Eastern Europe
14 Waste
15 Meadow grazing
16 Dairy alternatives
17 Water usage & efficiency
18 Affordable nutrition
19 Natural & clean label products
20 Diversity & inclusion



## Sustainable development through partnerships

FrieslandCampina understands that many sustainable development goals can only be achieved by working together with partners. This is why we are working together with different parties at home and abroad.

### International sustainable dairy sector

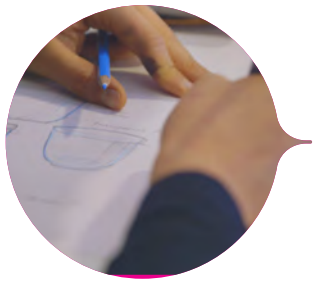
Dairy producers, including FrieslandCampina, and their customers have joined forces for the purpose of developing a global Sustainable Dairy Partnership standard in business-to-business relationships. In 2019, this standard was presented and applied within the sector, which made it possible to demonstrate progress in the area of making individual dairy companies sustainable.

### Sustainable Dairy Chain

Through means of the Sustainable Dairy Chain, FrieslandCampina works together with dairy companies and dairy farmers on a dairy sector that is future-proof and responsible. The Sustainable Dairy Chain has formulated objectives for 2030 for the following themes for this purpose: climate-neutral development, continuous improvement of animal welfare, retention of pasture grazing, and preservation of biodiversity and the environment. Indicators and monitoring systems, among other things, are being developed by the Sustainable Dairy Chain. Furthermore, tools and instruments are made available that assist dairy farmers in making their dairy farms sustainable.

## Cooperation with customers

To further reduce the emission of greenhouse gases, FrieslandCampina collaborated with a number of important customers. For example, in 2019, together with another company, a pilot was conducted in the Netherlands and Germany to reduce the greenhouse gas emission of companies operating on peatland, while at the same time keeping biodiversity intact.



### Respackt: data-driven selection of the most sustainable packaging

How do you make a data-driven selection of the most sustainable packaging without making any concessions to product protection and food safety?

View the full story online

### On the way to PlanetProof

Stichting Milieukeur launched their 'On the way to PlanetProof' for dairy at the end of 2018. Campina was the first brand that this quality mark. In contrast to other sustainability quality labels, the 'On the way to PlanetProof' quality label, is based on the sustainability results of multiple dimensions simultaneously. Milk is supplied by member dairy farmers who perform well in relation to the animal well-being, biodiversity and climate themes. Due to the sustainability efforts required for dairy with this label, FrieslandCampina asks retailers to pay a higher price. The added compensation benefits the members who supply milk for the dairy produced with this quality label. Another part of the additional income is used for sustainability projects on and around the farms of the collective.

The 'On the way to PlanetProof' quality label is being introduced on a phased basis. In this connection, dairy farms that meet the underlying requirements in the proximity of the production facilities were first to be allowed to participate. Depending on market demand additional member dairy farms will participate. The first products derived from this new milk stream were available in refrigerated retail section in mid-December 2018.

### Reducing the carbon footprint throughout the entire chain

FrieslandCampina endeavours to keep greenhouse gas emissions in 2020 equal or lower in comparison to 2010 (12,799 kt $CO_2$ equivalent). This includes the greenhouse gases released at member dairy farms, during transport from the farm to production facilities and between these locations, and when the dairy is processed at the production facilities. In 2019, the total emissions from these sources decreased by 4 percent to 12,687 kt $CO_2$ equivalent in comparison to the previous year (2018: 13,207 kt $CO_2$ equivalent[1]).

This decrease was caused by the decrease in emissions per kilo milk, a lower milk volume and by the increase in the quantity of renewable electricity generated (solar panels and wind energy) at member dairy farms. The greenhouse gas emissions for production and transport declined by over 10 percent to 723 kt $CO_2$ equivalent due to a further increase in the use of green electricity and a reduction in the energy consumption per tonne product.

To stimulate $CO_2$ reduction a system of $CO_2$ shadow pricing was initiated in 2019. 50 euros per year is calculated for every tonne of $CO_2$ reduction for all relevant CAPEX projects.

### More green electricity and energy efficiency in production and transport

FrieslandCampina has been using green electricity since 2017. In 2019, the worldwide share of green electricity was 94 percent, and in Europe it was 100 percent. 25 percent of all green electricity was purchased from member dairy farmers in 2019. In 2018 and 2019, the production facility in Veghel shut down its gas turbines and has now fully switched over to green electricity. As a result the $CO_2$ emission at this production facility has been reduced by more than 15 percent.

In 2019, FrieslandCampina introduced various technical and technological energy saving process innovations at various locations with which the company aims to reduce its energy consumption by at least eight percent over a period of three years. Energy consumption declined by 3.8 percent to 2.79 GJ/tonne during the year under review. This is due to the completion of a number of projects, continuous improvement programmes and the closure of facilities in Gütersloh (Germany) and Jeddah (Saudi Arabia).

### Reduction of water consumption in production

The availability and quality of water demand attention throughout the world. The increased periods of drought, desalination and the impact of water consumption on energy management, make reducing water consumption a priority. In 2019, FrieslandCampina's global objective was to achieve a 2 percent reduction in water consumption per tonne product at its production facilities. Water consumption per tonne product declined by 2.6 percent to 4.96 m3/tonne. Effective from 2020, this is expected to be 3 percent.

1 The 2018 figure has been adjusted. The emission factors for milk, milk powder and whey for NL, DE and BE have been adjusted retroactively to account for the adjusted sector model. The EU and global emission factors have also been updated due to the new FIA report concerning the emissions associated with milk production.

### Our path to circular packaging

Last year, FrieslandCampina put a clear target on the horizon: by 2050 all packaging must be circular. The first step in this direction is the pronounced goal that by 2025, all packaging worldwide will be recyclable. This ambition partly arises from the New Plastics Economy of the Ellen MacArthur Foundation (the leading platform for the transition to a circular economy) and the Plastic Pact NL, which FrieslandCampina has also signed.

FrieslandCampina developed the Respackt software tool. This tool can be used during the development of new or modified packaging to quickly analyse the environmental burden and the recyclability of packaging, to facilitate choosing the most sustainable option. In 2019, FrieslandCampina analysed its entire packaging portfolio. The share of recyclable packaging was identified and future progress can now be measured. This has created insight into where packaging can be made sustainable and where the greatest gains can be achieved. For example, it was decided to start within the cheese portfolio by making the packaging used for cheese slices sustainable.
The result is in 2019 a fully recyclable and resealable packaging was developed with less plastic. More information about this packaging and the next steps we will be taking in the context of the 'pLESStic' programme is available at www.recyclablecheesepack.eu.

At the present time, 87 percent of the entire packaging portfolio is recyclable. For plastic packaging this is 33 percent. The path towards a circular packaging portfolio is complex; quality and food safety are first and foremost. Cooperation with chain partners is needed to take further steps. For example, together with suppliers we are looking for innovative material solutions.
An example of this, is FrieslandCampina's chairmanship of the National Test Centre for Circular Plastics, in which, together with chain parties, research is being conducted into new waste sorting methods. In addition to close contact with packaging suppliers, waste sorting and recycling firms, FrieslandCampina, with consumers and retailers, is also investigating how packaging can be made more sustainable.

### Sustainable procurement of agricultural raw materials

The responsible procurement of agricultural raw materials is part of FrieslandCampina's sustainability policy.
In addition to raw milk, FrieslandCampina also uses other agricultural raw materials. By 2020, FrieslandCampina aims to only purchase agricultural raw materials and paper packaging acquired from fully sustainably managed sources. Agricultural raw materials that are already (partially) purchased from sustainably managed sources among other things include cocoa, soy oil, palm oil, coconut oil, cane sugar, beet sugar, starch and paper for packaging.

## Additional incentives for sustainable development

**To stimulate sustainable development on farms, FrieslandCampina at the end of 2019 announced that it will make an amount of 24 million euros available each year in the context of Foqus planet. This consists of a generic farming contribution of 0.125 euro per 100 kilos of milk and an amount for sustainable development established on an annual basis. The farming contribution will be paid for the first time in 2021 for the results achieved in 2020.**

These are products with globally recognised certificates or products for which a plan for sustainable development has been developed in cooperation with suppliers.
In 2019, the share of raw materials purchased from sustainably managed sources increased to 87 percent (2018: 77 percent), largely due to the increase in SMETA sustainable coconut oil, cane sugar with Bonsucro certification and beet sugar with SAI-FSA certification. For example, the World Wide Fund for Nature in its Palm Oil Scorecard for 2019, singled out FrieslandCampina as the highest scoring Dutch company and also qualified FrieslandCampina as part of the worldwide top ten Consumer Goods Forum members.
The purchase of paper packaging from sustainably managed sources rose by 2 percentage points to 95 percent, due to the increased purchase of sustainable consumer packaging.
Greenhouse gas emissions associated with the procurement of milk, milk powder and whey from third parties decreased by 10 percent in 2019 in comparison to 2018 to 3,657 kt $CO_2$ equivalent.

## FrieslandCampina on track towards electricity-neutral production chain by 2025

It is FrieslandCampina's ambition to be electricity neutral by 2025. Starting from 2020, the production facility for young livestock feeds in Veghel has been operating electricity-neutral. What steps were taken to accomplish this?

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### Sustainable dairy farms with Foqus Planet

Making FrieslandCampina sustainable involves the entire chain, including member dairy farms. Every dairy farmer implements sustainability in different ways on his/her farm. The dairy farmer him/herself determines the most appropriate farm management approach. FrieslandCampina developed the Foqus planet programme to create clarity for the entire Cooperative about the expectations of statutory laws or the market with respect to food quality and sustainability. This programme offers members insight into their scores on various components. It safeguards a basic level of quality and sustainability, stimulates dairy farmers to make their dairy farm even more sustainable and makes the performance of member dairy farmers visible in the area of quality and sustainability. Foqus planet consists of three components:

1. Basic requirements: requirements relating to hygiene, feed, milk quality, animal health and sustainability. These requirements must be met at all times.
2. Pasture grazing: cows grazing in the pasture is part of the (Dutch) cultural landscape and contributes to the sector's visibility. Member dairy farmers receive a premium for full and partial pasture grazing.
3. Sustainable development: eight indicators for sustainable farm management, subdivided into the themes animal health and animal welfare, climate and biodiversity. Examples of indicators include the cow's lifespan, care for the landscape and the emission of greenhouse gases. Farms that score high on these themes receive a bonus that is funded from a cooperative scheme.

### CowCompas part of Foqus planet's basic requirements

In 2018, a decision was made that member dairy farmers had to implement CowCompas in the Netherlands in 2019. CowCompas is a risk analysis of the dairy farm relating to the health and welfare of the cows. In addition to the risk analysis, the dairy farmer also receives a report from the WelfareMonitor. This monitor is a practical implementation of the international standard for measuring welfare: Welfare Quality®. The CowCompas is carried out by the dairy farmers in cooperation with their veterinarian.

### Supporting members with the Winning with Climate and Nature programme

In 2019, FrieslandCampina supported dairy farmers in the area of climate, lifecycles and nature, and workshops were organised in cooperation with agricultural consulting firms and sector parties. 1,550 member dairy farmers took part in the Winning with Climate and Nature workshop. The workshops included discussions on why this theme is important and also focused on integrality. A unique element of the workshops and support is the use of a tool designed to calculate the impact of measures and bring their correlation into focus. In addition to the workshops for the Winning with Climate and Nature programme, e-modules and other knowledge materials are made available on the members' website Milkweb. Member participation was voluntary. FrieslandCampina will continue to offer these workshops in 2020.

### Reducing greenhouse gas emissions on dairy farms

Approximately 90 percent of the total emission of greenhouse gases in FrieslandCampina's dairy chain originates on and around the dairy farms. In 2018, a greenhouse gas (or carbon footprint) monitor became available that assists dairy farmers in reducing the emission of greenhouse gases on their farms. Dairy farmers in the Netherlands and Belgium were encouraged to use this module through Foqus Planet. In 2019, the emissions per farm were calculated for all members in the Netherlands, Belgium and Germany. As such FrieslandCampina is the first and only dairy company in the world to calculate this at this scale. The objective is to help reduce emissions by creating awareness.

In 2019, the emission of greenhouse gases on member dairy farms decreased by 3.5 percent to 11,964 kt $CO_2$ equivalent (2018: 12,398). In 2019, the average greenhouse gas emission of a Dutch dairy farm was 1.19 kilo of $CO_2$ equivalent per kilo of milk, adjusted for fat and protein. This calculation was established by Wageningen Economic Research and FrieslandCampina research & development.

### Dairy farms as producers of electricity

The agricultural sector plays a key role in the Dutch energy transition. The sector is involved in the production of almost half of all sustainably generated energy. FrieslandCampina's member dairy farms are involved in the production of green electricity and biogas by installing solar panels, windmills and mono-manure digesters. Over 2,500 member dairy farmers are producing green electricity, enough to supply approximately 200,000 households with electricity. The total current electricity generated by FrieslandCampina member dairy farmers can be tracked at www.frieslandcampinaopwek.com.

The generation of renewable energy provides dairy farmers with a direct financial benefit and reduces the carbon footprint within the chain. Green energy from the farm appeals to citizens, consumers and customers and helps FrieslandCampina create value on the market. Through its Farm Energy programme, FrieslandCampina stimulates its member dairy farmers to work with renewable energy. More than one thousand dairy farms are participating in one or more projects under this programme. The most important Farm Energy projects are Solar, Jumpstart and Wind.

Under the Solar programme, solar panels are installed on the roofs of stables. In 2019, solar panels were installed on two hundred roofs at member dairy farms. This increases the total number of solar roofs to 250. In addition, an estimated three hundred member dairy farmers have installed a solar roof on their own initiative. These roofs together supply enough electricity as the electricity consumed by approximately forty thousand households.

FrieslandCampina encourages the use of mono-manure digesters with Jumpstart. In 2019, eleven new participants were added, for a total of nineteen. It is expected that the number of installations will grow over the coming period. Aside from generating green energy on the basis of a profitable business case, a mono-manure digester also makes a major contribution to reducing the emission of methane and nitrogen (up to approximately 50 percent).

The Wind project helps member dairy farmers with the acquisition of a small windmill that uses blades made from Dutch larch wood. The project was initiated in 2019. In the meantime, twelve windmills have been installed and contracts have been signed for the installation of another 28 windmills.

**Continuous improvement of animal health and welfare**

A healthy dairy farm stands or falls with healthy animals. Cows that are well taken care of live longer and require less medicine. The dairy farmer monitors the welfare and health of the cows each day. FrieslandCampina together with member dairy farmers aims to continuously improve animal health and animal welfare.

One of these aims in recent years was the responsible use of antibiotics. Antibiotics make a key contribution to countering bacterial infections in both humans and animals. The Dutch approach to reducing antibiotics is unique in the world.

The Dutch animal sectors and government have negotiated agreements about the responsible use of antibiotics. For example, antibiotics may only be applied at the express instruction of a veterinarian. The preventive use of antibiotics is prohibited. The use of antibiotics has significantly declined in recent years. In its annual report, the Netherlands Veterinary Medicines Authority (SDa) reports that its use has almost halved since 2009. The use of antibiotics in the dairy industry has reached such a low level, that the SDa now refers to it as an acceptable use.

In addition, FrieslandCampina encourages member dairy farmers to extend their cows' lifespan by six months in 2020 in comparison to 2011. In 2011, the average lifespan of a cow in the Netherlands was 5 years, 8 months and 11 days. In 2019, the lifespan increased by seventy days to 5 years, 8 months and 23 days in comparison to 2018. This increase is in accordance with the expectation that from 2019 onwards the lifespan would increase further until the effect of the phosphate legislation is behind us.

Healthy cows and calves that are treated well are the pride of every dairy farmer. A healthy calf can grow into a cow with a longer lifespan. The information from the KalfOK programme [link] provides dairy farmers with insight into the quality of their young livestock in comparison to peer dairy farms and enables dairy farmers to further optimise care for their calves. Dairy farms with a good KalfOK score are rewarded for their performance with a premium through the Foqus planet programme. This way FrieslandCampina

## The dairy farmer as renewable energy supplier

With cooperative entrepreneurship, we ensure that the entire chain benefits from healthy and sustainable business operations. The member dairy farmers play an important role in this. Part of the electricity we consume is sustainably generated on their farm.

View the full story online

encourages member dairy farmers to continuously improve the calf rearing process. The percentage member dairy farmers that participated in KalfOK was 99 percent in 2019 (2018: 92 percent).

### Pasture grazing

To encourage dairy farmers to allow their cows to graze outdoors, they receive a premium on their milk price. In 2019, 83.0 percent (2018: 81.2 percent) of member dairy farmers in the Netherlands practised some form of pasture grazing. The number of dairy farms practicing pasture grazing increased by 248. As such the objective for 2020 has been reached. FrieslandCampina will continue to encourage the use of pasture grazing among its members.

### Biodiversity

Nature is the engine of every dairy farm. The growth of crops and milk production are dependent on the natural system, and consequently on biodiversity. Dairy farmers affect biodiversity on the farm and in the nature conservation areas around the farm. FrieslandCampina, the World Wildlife Fund (WWF) and the Rabobank have developed a methodology to measure the impact of dairy farms on biodiversity. This Biodiversity Monitor is based on the principles of the FAO LEAP and the Natural Capital Protocol.
The use of the Biodiversity Monitor forms the basis for retaining and restoring biodiversity. In 2019, FrieslandCampina encouraged member dairy farmers to make use of the Biodiversity Monitor. In 2019, 99.6 percent (2018: 55.6 percent) of dairy farmers had insight into the Biodiversity Monitor scores. Effective from 2019, FrieslandCampina rewards members on the basis of the result of the six indicators of the Biodiversity Monitor. In addition, work is underway to improve the Biodiversity Monitor, for example by improving the registration of Nature and Landscape Management results.

Acceleration is required in a number of areas relating to biodiversity to combat deforestation and the decline of specific species. This is why FrieslandCampina continues to work on maintaining 100 percent RTRS-certified soy and together with the Netherlands Society for the Protection of Birds and BoerenNatuur established the Strengthening Meadow Bird Habitats Foundation. This foundation supports dairy farmers in specific areas where meadow birds are vulnerable.

In 2019, 82.9 percent (2018: 69.4 percent) of dairy farms practised active nature and landscape management on the basis of a management agreement with a third party or by completing their own declaration. Not all dairy farmers are in a position to sign management agreements with a third party. This is why FrieslandCampina together with BoerenNatuur, an organisation of Dutch national farmer collectives, is working on a country-wide system to register and safeguard all of the nature and landscape management areas on dairy farms.

### In dialogue

In order to chart stakeholder expectations and keep up to date with all current and relevant developments, FrieslandCampina maintains regular contact with its key stakeholders. This concerns member dairy farmers, employees, customers, suppliers, government bodies, financiers, NGOs and society in general. In identifying the stakeholders, consideration is given to the extent to which they are affected by or involved in FrieslandCampina's daily activities. By engaging these stakeholders in dialogue, FrieslandCampina collects information about issues that are of importance to specific groups and identifies the most relevant issues for these groups. The purpose nourishing by nature was also brought up during various discussions with stakeholders. FrieslandCampina refined its policy on this basis. The frequency of contact differs by group of stakeholders. See page 198.

Dilemma

## Sustainability at a responsible pace

FrieslandCampina endeavours to lead with sustainability. This means that it has high ambitions for reducing greenhouse gases, improving biodiversity and continuously improving animal health and animal welfare.

This demands a great deal from our members; they must comply with these, as well as other social demands on their farm. Member dairy farmers are professionals and they can take the required steps; only not right away and not all at the same pace. And when they are asked to make investments, these must be economically feasible. After all, the continuity of the dairy farming sector is first and foremost – without dairy farms there is no FrieslandCampina.

This puts FrieslandCampina – the Company and the Cooperative – in a dilemma of how to adjust and improve fast enough, so that we can 'lead with sustainability', without asking member dairy farmers to make impossible decisions. We encourage this by giving member dairy farmers the tools with which they can see the impact of their actions and what the potential benefits are of an adapted way of working, or what the effect is of an implemented measure. In addition, we reward the results achieved through Foqus planet and additional resources, such as the provision announced at year-end 2019, to make an additional 24 million euros available effective 2021 as a reward for sustainability measures implemented at the farm level. In addition, we try to as much as possible valorise the sustainability performance on the market.

# Sustainable Dairy Partnership: driver for chain sustainability and value creation

**Interview with Jan Willem Straatsma (Programme Manager Corporate Sustainability) and Auke Zeilstra (Corporate Key Account Director)**

Long-term sustainable growth for current and future generations is a key theme for FrieslandCampina. This is why FrieslandCampina is one of the founders of the Sustainable Dairy Partnership (SDP). This is a global standard for demonstrably making dairy products sustainable. The methodology was agreed upon among international dairy producers and their commercial customers. The SAI Platform in Brussels is the standard's organiser. Jan Willem Straatsma and Auke Zeilstra explain how this not only elevates sustainability within the chain to a higher plane, but also that this is a good thing for business and dairy farmers.

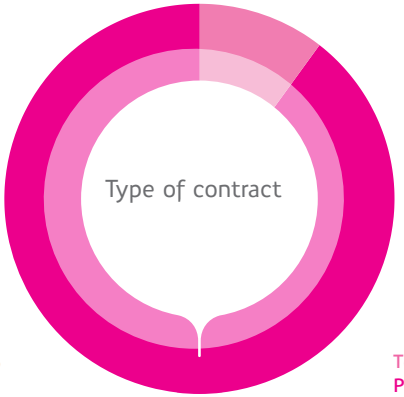
"The beauty of the Sustainable Dairy Partnership is that we continue to challenge each other to further intensify sustainability, as a result of which the entire sector ultimately improves."

View the full interview online

# Our employees

(average number of FTEs)

Female 25.9%
Male 74.1%




Temporary 10.2%
Permanent 89.8%

Part-time
8.4%

2.9% male
5.5% female

Fulltime
91.6%

68.7% male
22.9% female

## Number of employees

**Consumer Dairy**
**13,445**
2018: 13,633

**Specialised Nutrition**
**2,387**
2018: 2,345

**Ingredients**
**3,293**
2018: 3,248

**Dairy Essentials**
**2,731**
2018: 2,743

**Corporate and other**
**1,960**
2018: 1,800

**Total**
**23,816**
2018: 23,769

# Working at FrieslandCampina

In 2019, the average number of employees (FTEs) rose by 0.2 percent to 23,816. This increase in part was due to the acquisition of W. Bakker Kaashandel B.V. (80 employees) and the conversion of temporary employment contracts to permanent employment contracts. See page 208 for additional details concerning the workforce, such as distribution by country or type of contract.

## Talent Management

In 2019, FrieslandCampina devoted further effort to developing talent and leadership qualities. Key in this respect was the aim of encouraging employees to continue learning and to further develop themselves. The leadership development programmes for management and high potentials were improved last year. Senior management initiated the Lead to Win programme to give the transformation and personal development a boost. The selection process for high potential leaders (Future Leaders) was refined and the Dare to Lead programme was further expanded to accelerate the personal development of future leaders.

In addition, in the Nourishing Growth workshop a large part of employees acquired better insight into what FrieslandCampina has to offer in the area of personal development.

To stand out on the job market several Employer Branding campaigns were launched in various countries in 2019. This resulted in a tremendous growth in applications through our own channels, including the website. In addition, a new Employer Value Proposition and career website were developed to be launched at the beginning of 2020.

In consultation with the Central Works Council, the Performance Management process was redesigned for all jobs in the Hay scales. Implementation of the redesigned process is scheduled for 2020.

Diversity, internal mobility and purpose-driven leadership will be given specific attention in 2020.

## Diversity

In 2019, the ratio of men and women working at FrieslandCampina worldwide was 28.4 percent women and 71.6 percent men (2018: 28 and 72 percent). FrieslandCampina aims to increase the percentage of women in senior management positions to 30 percent by 2020. In 2019, the percentage of women in senior management positions was 25.9 percent (2018: 22.7 percent). In 2019, on average 40 percent of the members of the Executive Leadership Team were women (2018: 40 percent); for the Executive Board this was 50 percent. Three (2018: four) nationalities were represented among the nine members of the Executive Leadership Team.

## Culture

FrieslandCampina's employees contribute to sustainable success. This is why the Company creates a working environment in which they feel safe and appreciated, and in which they are committed. A working environment that helps them perform to the best of their ability and in which they put their best foot forward. Employees were challenged to identify improvements and to act on them in 2019. This concerned safety solutions, quality improvements, innovation, entrepreneurship and contributing to sustainability. *Our Purpose, Our Plan* created focus and inspired everyone to perform to the best of their abilities.

In 2018, a programme designed to promote a new working culture was initiated in support of the new organisation structure. It gives priority to 'winning in the market' – purpose-driven, commercially oriented and with an owner's mentality. In 2019, the employees' perception of the change continued to grow in a positive direction. From the quarterly surveys, completed by 88 percent of employees, it is apparent that a large majority of the respondents is positive about the WIN-WIN programme. 90 percent of all employees indicated that they feel safe in their working environment, in which people actively support each other and are not afraid to openly and honestly communicate with each other. In addition, 91 percent indicated that they strongly believe in the organisation's objectives and 87 percent derives energy from his/her work.

## Safety

Safety in the workplace is and remains a key theme at FrieslandCampina. In 2019, the total number of accidents* decreased by 8 percent to 134 accidents (2018: 145). The total number of accidents per 200,000 hours worked decreased to 0.35 (2018: 0.37. Most accidents in 2019 were once again related to falling and tripping (28 percent) and to cuts (16 percent).
There were relatively many incidents involving a collision (8 percent) and steam and hot water (8 percent). More serious accidents involved the safety of our machines and processes, and internal transport (forklift trucks and electric pallet cars).

1 Total number of accidents = 'number of accidents resulting in sick leave', 'number of accidents resulting in work adjustment' and 'number of accidents requiring medical treatment'.

In 2019, effort was devoted to three areas of focus to achieve the goal of zero accidents:

- **Risk analysis** – a thorough risk analysis is indispensable and necessary for continuously reducing and managing risks. In 2019, a new methodology was introduced designed to maintain the risk analysis up to date and to implement improvements effectively and quickly.
- **Leadership** – the management teams of the production facilities must be aware of the role they have in promoting safety. This is why a special safety programme for managers was rolled out at various production facilities in 2019. In addition, a programme to prepare new managers for their role in the area of safety was also rolled out.
- **Contractors** – in 2018 and 2019, a contractor was injured in approximately half of the accidents a contractor was injured. This is a large group and includes temporary workers, cleaners, technicians and drivers. Various improvement initiatives have been started for these groups. In 2019, several contractor safety days were organised, during which experiences at our sites were exchanged with contractors. In 2019, 41 percent of the incidents involved a contractor (2018: 51 percent).

## COMPASS

In 2019 FrieslandCampina highlighted its code of conduct, Compass, and the Speak-Up procedure. In addition to an introduction and mandatory Compass and Speak Up e-learnings (completed by 2,852 new employees worldwide in 2019), employees completed mandatory e-learning and training courses about Compass topics that are relevant to their position. In the fall of 2019, a worldwide campaign was conducted to focus attention on Speak Up. The number of reports with regard to Speak-Up increased with 19 percent, totaling 156. Most of these concerned behaviour in the workplace. Reports of fraud ranked second. All reports were handled confidentially and the identity of the persons making the report was protected when desired. Also a telephone and webservice were available, facilitated by a third party. Compass covers fourteen topics, such as sustainability, food and people safety, honest business practices and human rights. The last two themes are set out below.

### Honest business practices

FrieslandCampina adheres to honest business practices and patently rejects any form of bribery. In 2019, a significant portion of FrieslandCampina's revenue was generated in countries where, in view of their low score on the Corruption Perceptions Index of Transparency International, honest business practices are at risk. To limit these risks, FrieslandCampina took targeted measures, for example by training employees.

In 2019, interactive workshops about relevant local dilemmas concerning the honest business practices theme were held in various countries. More than 350 senior managers and employees in selected positions took part in these workshops. In 2020, such workshops will once again be held in various countries.

### Human Rights

FrieslandCampina respects and supports internationally recognised human rights, such as the right of employees to join recognised trade unions. The basic principles are the OECD Guidelines for International Companies, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Human Rights Declaration.

FrieslandCampina realises that there is a relatively high risk of human rights violations in the agricultural sector. Child labour and forced labour are not tolerated. FrieslandCampina contributes to banning such practices. All employees, in the context of their employment contract, are expected to immediately put any form of discrimination or harassment up for discussion. We expect the same from our business partners.

In 2019, FrieslandCampina adopted a Human Rights Policy. The Human Rights Policy sets out FrieslandCampina's policy in the area of, for example, child labour, forced labour, freedom of association, and access to water and sanitary facilities. In 2019 no key performance indicators with regard to human rights were set up. In 2020, the Human Rights Policy will be further embedded and rolled out within the organisation, for example through training employees and by conducting human rights due diligence.

# Risk Management

FrieslandCampina is confronted with risks and uncertainties caused by external as well as internal factors. Global developments, such as the volatility of exchange rates, the volatility of energy and raw material prices, increasing laws and regulations, political instability, cyber risks and the constantly increasing importance of digitisation and social media, increase the Company's degree of risk. FrieslandCampina opts for a proactive risk management framework, throughout the entire organization, embedded in operational processes.

### Risk Management Framework

The Company and its consolidated subsidiaries use a risk management framework based on internationally recognised COSO standards. As such, FrieslandCampina complies with the conditions of the Dutch Corporate Governance Code. The framework describes the risk acceptance, risk management measures, responsibilities and governance.

### Risk awareness and culture

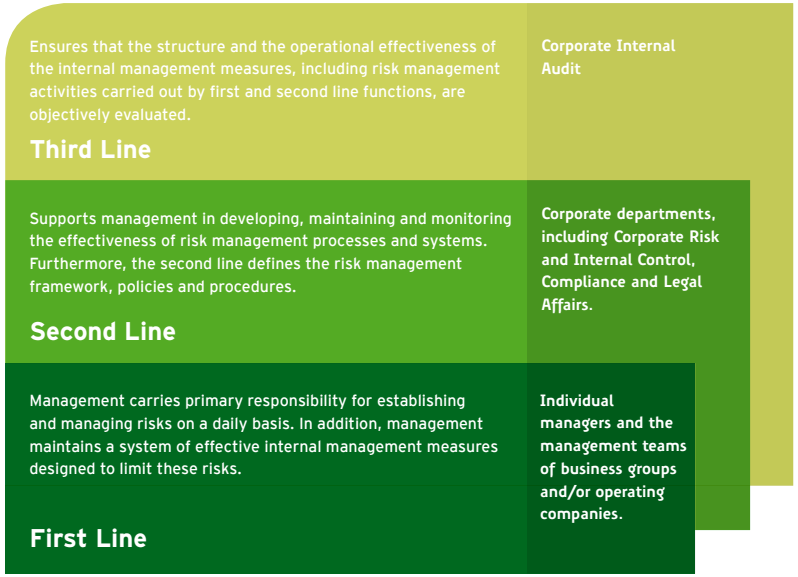
Employees are expected to be aware of and feel responsible for the risks while carrying out their work. They must abide by the applicable general code of conduct and comply with the applicable laws and regulations and policies.

Employee risk awareness is continuously enhanced through targeted communication and training. The responsibility for implementing control measures is delegated to employees with responsibility for risk management in a specific area (for example, a process, system, asset or information). They are evaluated on this during their performance evaluation. FrieslandCampina stimulates a culture in which weak areas in its risk management programmes or control measures can be transparently reported and effectively dealt with.

### Governance (lines of defence)

The Executive Board of the Company has final responsibility for effectively controlling risks. To support the Executive Board, the responsibilities for risk management are delegated in accordance with the three lines of defence model (see table).

To be able to evaluate the effectiveness of measures, the corporate departments (second line) regularly inform the Executive Board about the progress and outcomes of the various risk management programmes. Corporate Internal Audit independently reports at least four times per year to the Executive Board and to the Audit Committee about the effectiveness of the risk management framework, policies and procedures. The Audit Committee informs the Supervisory Board of the Company. The role of the Audit Committee is described in the 'Corporate Governance' section.




## Risk management improvements

Various improvements were made to the risk management process over the course of 2019:

- roll-out of risk management measures and instruments for specific compliance areas, such as business conduct, fraud and cyber risk;
- reinforce supervision of the progress of outstanding action items relating to the implementation of management measures and corrective measures.

## Risk Profile

Global developments in the area of trade and politics affect the markets in which FrieslandCampina operates. This may concern trade barriers in the form of protectionism or political and social tensions. In addition, laws and regulations are subject to constant change and complexity is constantly increasing. As a result of these developments, management is confronted with a restless business climate and is sometimes faced with difficult and complex choices concerning the deployment of people and resources.

## Key Risks and Uncertainties

FrieslandCampina is active in a significant number of countries and product-market combinations. As a result, the Company is potentially exposed to a large number of risks and trends. The Executive Board has identified risks that can be considered to be the largest risks on the basis of probability of occurrence and/or impact. The following is an overview of the key risks and trends, including the mitigating measures.

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Competitors**<br>Potential loss of market share to competitors, including competitors in adjoining product categories.<br>When the Company's areas of strength no longer yield any advantage in relation to (potential) competitors, this can result in a loss of market share and revenue. | *Balanced.*<br>The Company is prepared to accept a moderate level of risk, as long as this does not jeopardise the Company's market share. | *Our Purpose, Our Plan* is translated into effective local plans in which the local competitive situation is evaluated each year by implementing an annual Integrated Commercial Planning and a continuous analysis of trends relating to the market and competition. |
| **Cyber Security**<br>Failure of IT systems or breach of security infrastructure.<br>Failure can result in the disruption of business processes, loss of confidential information, and financial and reputation loss. | *Low to none.*<br>The Company accepts minor risks of operational malfunction, provided this does not adversely affect customers.<br>FrieslandCampina aims to at all times comply with applicable laws and regulations. | A cyber security plan is in operation – programmes designed to limit the threat of malware, increased security of digital workstations, including mobile devices, etc.<br><br>Communication campaigns, e-learning and gamification have been introduced to increase employee awareness of the risks. Business continuity procedures, including backup and recovery, protection of sites to prevent network/ production failures, are effective. |

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Digital & Technology**<br>Risk that our business models are overtaken by advanced technology developments.<br>This can result in a loss of consumers and customers (and therefore market share) and talented staff, and reduced effectiveness. | *Balanced.*<br>FrieslandCampina views this trend as an opportunity to grow and aims for a leading position in relation to new distribution channels. It accepts a moderate risk that it will not succeed in this area. | The implementation of the digital strategy is being accelerated with the expansion of existing e-commerce channels and the development of new channels.<br>Focus on a digitally improved customer and consumer experience, for example by providing value added services. |
| **Balanced Business Portfolio**<br>Risk of an imbalanced business portfolio with products, brands, markets, geography or distribution channels.<br>When the organisation does not have a balanced business portfolio it is too dependent on a limited number of business segments. This affects the (long-term) revenue and profit growth potential. | *Balanced.*<br>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result. | The *Our Purpose, Our Plan* strategy focuses on the continuous development of the business portfolio with a continued focus on a number of main themes (supported by innovation road maps).<br>For example, expanding the supply of healthy dairy products; increasing the sale of essential dairy products by working on profitable positions for branded and non-branded cheese, so that milk is less used for non-profitable products; continuing the accelerated introduction of the digital strategy in order to further develop the distribution channels.<br><br>Acquisitions and partnerships form an integral part of the portfolio's continuous development. |

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Financial**<br>Unfavourable development of the financial position of the Company due to (external) economic circumstances.<br>Negative economic developments can have a direct impact on the Company's profitability and financial position.<br>FrieslandCampina as a multinational is sensitive when it comes to different financial risks, such as credit risks, interest risk, liquidity risk and currency risk. | *Balanced.*<br>The Company is prepared to accept a moderate impact of external developments on its financial position (indicator: 5%-10% of total EBIT). | Strict procedures for setting targets, preparing budgets, management reports and working capital management.<br>Monitoring economic developments and sensitivity analysis.<br>Effective programmes designed to improve the Company's efficiency (for example, Supply Chain Unlock and FORCE).<br>Coordinated credit, interest, treasury and currency management. See notes on financial risk management on page 134. |
| **Geopolitics and Politics**<br>Geopolitical events that affect the Company's ability to operate in certain countries or that have a significant influence on local demand, credit risk and currency fluctuations. Geopolitical events can include such things as political instability, uncertainty due to approaching elections, terrorism, protectionism and import/trade restrictions.<br>A fluid regulatory landscape creates challenges in allocating and prioritising resources for the purpose of achieving business objectives. | *Balanced.*<br>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result. | Continuous monitoring of events that can affect the achievement of strategic long-term objectives.<br>Increase regional and local production of products to which protectionism or import levies do not apply or apply to a lesser extent.<br><br>Effective harmonisation with the political agenda and its impact on the Company and member dairy farmers are essential for a constructive dialogue about the sector's future. |

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Alignment with member dairy farmers**<br>Alignment between the Company, the cooperative and member dairy farmers is of the highest importance to be able to make and implement timely decisions and to be able to operate decisively and compete effectively. | *Balanced.*<br>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result. | The Company and the Cooperative actively seek dialogue with each other and with member dairy farmers. |
| **Milk supply**<br>Increasing unpredictability of the size of the milk supply, which makes synchronisation with market demand and/or milk processing capacity increasingly more difficult.<br>This is related to a potential increase in the supply of milk, as well as a structural decline in the supply of milk (for example, due to changes in laws and regulations). | *Balanced.*<br>FrieslandCampina is prepared to accept risks up to a certain level agreed to with member dairy farmers. | Continued consultation with member dairy farmers to be able to absorb the consequences of potential changes in laws and regulations, or market demand, on a timely basis, so as to subsequently be able to anticipate the associated changes in the milk supply and, for example, the required production capacity. |
| **Product quality and food safety**<br>Poor product quality or product contamination that constitutes a health hazard to consumers.<br>A quality problem or even a change in the perception of quality by consumers or government organisations can have serious consequences for the Company's reputation and market position. | *None.*<br>FrieslandCampina maintains the highest food quality and food safety standards.<br>Consumers' health must not be endangered under any circumstances. | The Foqus quality programme introduced at the Company's own sites, at member dairy farmers and at suppliers, consists of strict quality measures and procedures. Regular audits also form part of this programme.<br>The Golden Quality Rules are implemented throughout the world and continuous investments are made in quality at production facilities and in campaigns to further reinforce quality awareness.<br>The programme is supported by transparent management reporting of quality trends and incidents. |

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Reputation**<br>Potential reputation loss due to incidents or changes in public opinion.<br>If an incident (for example, a problem within the sector) is not effectively managed, this can result in trade restrictions or significant reputation loss, and loss of market share and revenue in key international markets. | *Low to none*<br>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not jeopardised as a result. | Global sustainability and dairy development programmes. Clear communication procedures and protocols (including crisis management and media tracking) with proactive involvement and communication with stakeholders (for example, governments, sector associations, NGOs).<br><br>A good connection with national politicians and lawmakers is essential for maintaining the dairy sector's excellent reputation. |
| **Talent and HR Management**<br>Limited possibility of attracting and retaining talent and building up crucial capacity for the future to be able to guarantee sustainable business performance and continuity (combined with an aging workforce). | *Balanced*<br>FrieslandCampina is constantly looking for the right mix between permanent employees and new talent. | FrieslandCampina is high on the list of most attractive employers in most of the countries in which it operates.<br>The job market is continuously regionally monitored to continue to attract the right talent, and plans are in place to be able to absorb the departure of employees. FrieslandCampina's Purpose statement is furthermore perceived as very attractive by new as well as existing employees. |

| Risks, trends and potential consequences | Risk Acceptance | Mitigating Measures |
|---|---|---|
| **Disruption of the supply chain**<br>Malfunction of critical operational business processes due to natural disasters or due to man-made risks.<br>Malfunctions can have a significant adverse impact on the continuity of business processes and can result in the temporary loss of revenue. If they persist for extended periods of time, this can result in the loss of market share. | *Balanced*<br>FrieslandCampina aims to limit the impact of unforeseen malfunctions on its business operations. This risk of natural disasters will always be present, in spite of continuous efforts designed to limit such risks. | Production@Risk Programme for the continuity of processes at Company sites, including the implementation of general plans designed to improve safety measures, an insurance programme, inspections and audits.<br>Supply@Risk Programme for the continuity of the supply of goods and services.<br>Participation in sector-wide animal disease protocols. |

# Outlook

Milk production globally and in the European Union is expected to continue to rise in 2020. Due to the uncertainties concerning the effects of laws and regulations, it is currently not possible to make any pronouncements about the milk supply in the Netherlands. However, the number of dairy farms in the Netherlands is expected to further decrease.

Although the demand for dairy products is expected to further increase globally, this is expected to be marked by major regional differences. Various factors are at the root of this. On the one hand this concerns economic developments, such as the general growth slowdown in advanced, as well as emerging economies, the declining consumer confidence in some countries and regions, and trade tensions resulting from protectionist measures, for example. On the other hand, demographic developments, such as the decline in the birth rate in China, also play a role.

In 2020, FrieslandCampina will work on making further adjustments to its business structure to be able to react even faster and more effectively to opportunities in, and the demands of, its most important markets. In addition to greater versatility, a flexible structure must also provide for optimal value creation for member dairy farmers and a more effective use of working capital, with the objective of securing and improving growth and profitability. An efficient structure must also make it easier to enter into new strategic partnerships.

FrieslandCampina's financial foundation is solid and provides an excellent starting position for the realisation of our plans in the context of the *Our Purpose, Our Plan* company strategy.

The Members' Council, during its meeting of 17 December 2019, approved the issue of perpetual listed subordinated bonds. In 2020, FrieslandCampina expects to issue perpetual listed subordinated bonds for a maximum amount of 300 hundred million euros, to strengthen its equity.

It is expected that in 2020, FrieslandCampina will be able to comply with the financial ratios specified by its financiers. At the end of 2019, FrieslandCampina did not use 990 million euros of the credit facilities committed. FrieslandCampina does not make any projections concerning the development of the result in 2020.

# Management Statement

The Executive Board of the Company has final responsibility for controlling the risks associated with corporate goals and the reliability of external (financial) reporting. The Executive Board is also responsible for assessing the effectiveness of the controls aimed at preventing or mitigating such risks. The Executive Board has assessed the performance of the internal management and control measures. Based on this assessment, the Executive Board concludes that:

- The report provides sufficient insight into the shortcomings and functioning of the internal risk management and control systems;
- The above-referenced systems provide a reasonable degree of certainty that the financial reporting does not contain any material misstatements as at the end of the financial year 2019;
- In accordance with the current state of affairs, the financial reporting has been prepared on a going concern basis; and
- The report includes a statement of the material risks and uncertainties that are relevant to the expected continuity of the Company for a period of twelve months following the preparation of the report.

The system of tasks for the internal risk management and control systems and the ensuing findings, recommendations and measures are discussed with the Audit Committee, the Supervisory Board and the external auditor.

# Statement of Executive Responsibility

In accordance with Section 5:25c paragraph 2 under c of the Dutch Financial Supervision Act (Wft), the members of Royal FrieslandCampina N.V.'s Executive Board herewith state that, insofar as they are aware, the Company's financial statements provide a true and fair view of the assets, liabilities and financial position of Royal FrieslandCampina N.V. and the companies jointly consolidated; and that the Annual Report provides an accurate overview of the situation as on 31 December 2019, and progress and operations during the financial year of Royal FrieslandCampina N.V. and the consolidated companies; and that the essential risks that Royal FrieslandCampina N.V. is confronted with are set out in the Annual Report.

Executive board

**Hein (H.M.A.) Schumacher**
Chief Executive Officer

**Jaska (J.M.) de Bakker**
Chief Financial Officer

Amersfoort, 14 February 2020

# 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. This information is published on FrieslandCampina's website. Although the Code is not applicable to the Company, because according to the law only listed companies are governed by the Code, the Company applies the principles and best practices provisions of the Code that are compatible with its control structure and the nature of the Cooperative. The provisions that are not applied are highlighted in this overview, along with the reasons why they are deemed inappropriate and the extent to which they are not applied. There was no change to the governance structure in 2019.

## Executive board

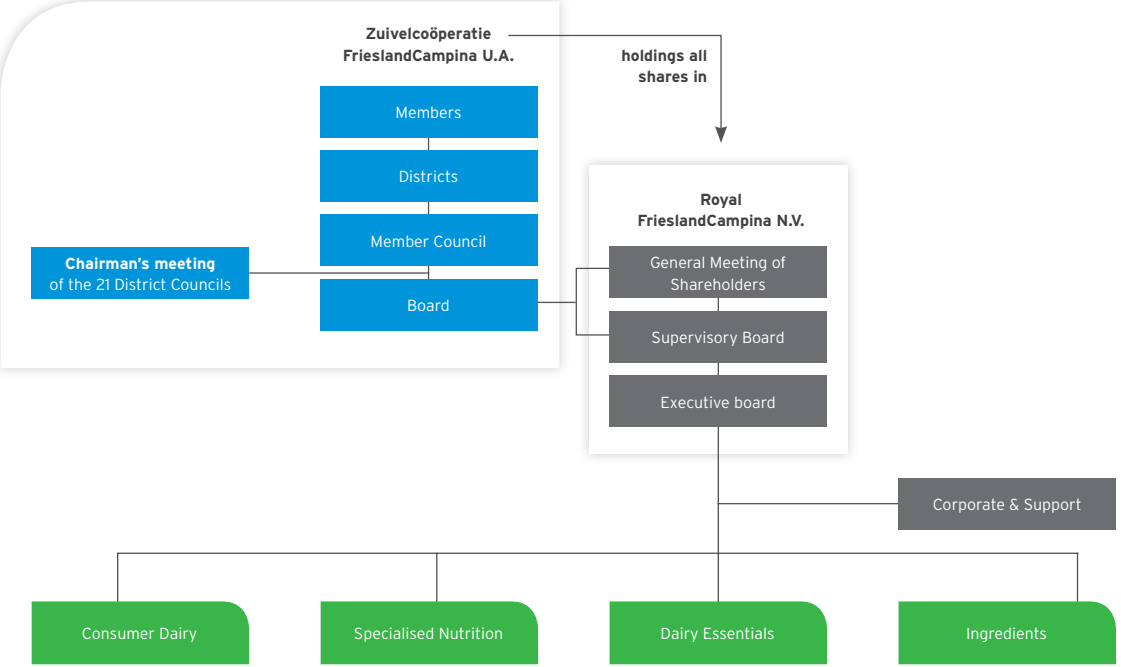
### Composition, tasks and responsibilities of the Executive

The Executive Board, which on the grounds of the Articles of Association comprises a minimum of two members, is collectively responsible for the management of the Company. This means that the Executive Board's responsibilities include the policy and business operations 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 associated with the Company's activities, and the 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 execution of its duties the Executive Board is focused on long-term value creation for the Company and its associated companies, and formulates an appropriate strategy for this purpose. The Executive Board is accountable to the Supervisory Board for its policy.

### Appointment of Executive Board members

The members of the Executive Board are appointed by the Supervisory Board for a maximum term of four years.




Governance structure

## Executive leadership team

### Composition, tasks and responsibilities

The Executive Board is supported by the Executive Leadership Team in its day-to-day affairs. The Executive Leadership Team consists of the members of the Executive Board, the presidents of the four business groups and the functional managers of Human Resources, Research & Development and Corporate Supply Chain. The task of the Executive Leadership Team is to implement the strategy, transform objectives into specific plans and manage operating companies within their area of responsibility.

### Appointment of Executive Leadership Team members

The members of the Executive Leadership Team are appointed by the Executive Board following approval by the Supervisory Board.

### Remuneration policy for the members of the Executive Board and the Executive Leadership Team

All relevant recommendations of the Code are applied in the remuneration policy. The remuneration policy is not made public as the Company is legally exempt from publication. The remuneration policy is proposed by the Supervisory Board and approved by the General Meeting of Shareholders. This policy is accounted for every year in the meeting of the Cooperative's Members' Council. Changes in the remuneration policy are put before the General Meeting of Shareholders for approval. On this subject FrieslandCampina is also accountable to the Cooperative's Members' Council.

## Supervisory Board

### Tasks and responsibilities

The Supervisory Board supervises the policy set by the Executive Board and the general course of events in the Company and its businesses, and the associated companies. The Supervisory Board also advises the Executive Board. The Supervisory Board discusses the strategy and the Company's main risks with the Executive Board. In addition, the Supervisory Board discusses the structure, and functioning of and any significant changes relating to the risk management and control systems with the Executive Board.
The Supervisory Board also has the authorities specified in the provisions of Book 2 of the Dutch Civil Code in respect of companies subject to the structure regime. 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. Under the Articles of Association, certain decisions of the Executive Board require the approval of the Supervisory Board.
In the performance of its duties, the Supervisory Board is led by the interests of the Company and its associated companies. The Supervisory Board also considers the relevant interests of the parties involved in the Company and the aspects of corporate social responsibility that are relevant to the Company.
Several times each year, the Executive Leadership Team attends a meeting of the Supervisory Board, or a part thereof. On this occasion various topics,

including the Company's strategy and budget, are discussed. In addition, the members of the Executive Leadership Team are invited to attend the meetings of the Supervisory Board when topics relevant to them are discussed. The Remuneration & Appointment Committee regularly holds progress meetings with the members of the Executive Leadership Team.

**Composition, independence and appointment**

A covenant has been signed with the Central Works Council (CWC). The covenant includes agreements regarding the composition of the Supervisory Board, the required profile of the members of the Supervisory Board, the strengthened rights of recommendation 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 when 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 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 regulation deviates from the best-practice provisions for the independence of supervisory board members.

The four external Supervisory 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 member is a so-called financial expert.

The Company is subject to the structure regime as provided in Book 2 of the Dutch Civil Code. Supervisory Board members are appointed by the Supervisory Board, on the basis of a co-optation system. The external Supervisory Board members are appointed for a four-year term and can subsequently be reappointed for another four-year term. After this, the external Supervisory Board members can be reappointed for another two-year term, which can subsequently be extended for a maximum of two years. Reappointment after a period of eight years must be substantiated in the Report of the Supervisory Board.

For the internal Supervisory Board members, the appointment and reappointment terms as members of the Board of the Cooperative apply. In principle they are appointed for a term of four years at most and may be reappointed twice (maximum). An exception to the above-referenced appointment and reappointment terms of internal Supervisory Board members applies to the incumbent Chairman, who may be appointed for a fourth term when the Company wants to appoint a Supervisory Board member for this position who has a lot of experience with the day-to-day operations of the Company and the Cooperative. The term of internal Supervisory Board members in any event terminates upon termination of membership in the Board of the Cooperative.

Information concerning the dates of (re)appointment and current terms of the Supervisory Board members is contained in the appointment and resignation roster on page 88.

**Remuneration**

The General Meeting of Shareholders adopts the remuneration of Supervisory Board members as proposed by the Supervisory Board and is annually held accountable by the Cooperative's Members' Council. The remuneration is not dependent on the Company's results.

## Supervisory Board committees

The Supervisory Board has a Remuneration & Appointment 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 posted on FrieslandCampina's website. Both committees report regularly to the Supervisory Board regarding their deliberations and findings. Nine of the thirteen Supervisory Board members are not independent in the sense of the Code as described above. This means that the composition of the Committees of the Supervisory Board deviate from the best-practice provisions of the Code which stipulate that more than half of the members of the Committees of the Supervisory Board should be independent as defined in the Code.

### 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 integrity and quality of the financial reporting and the effectiveness of the Company's internal risk management and control systems;
- the Company's financing;
- the application of information and communication technology by the Company, including cyber security-related risks;
- the Company's tax policy;
- the relationship with the internal auditor and the external auditor (including monitoring the independence of the external auditor), compliance with recommendations and follow-up on observations;
- recommendation of candidates for appointment as internal auditor;
- the annual evaluation of the internal audit function;
- providing advice concerning the nomination for appointment or reappointment or dismissal of the external auditor and making preparations for selecting the external auditor;
- proposing the assignment of the audit of the financial statements by the external auditor;
- annually discussing the draft audit plan with the external auditor;
- compliance with legislation and regulations.

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

### Remuneration & Appointment Committee

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

The duties of the Remuneration & Appointment Committee include:

- preparing proposals for the remuneration policy for the Executive Board and Executive Leadership Team, and the remuneration of the individual Executive Board members;
- compiling the remuneration report;
- selecting and preparing proposals for the appointment of the members (including drawing up appointment criteria and procedures) of the Executive Board and the external Supervisory Board members;
- regularly evaluating the size and composition of the Supervisory Board, the Supervisory Board's committees and the Executive Board, and proposing a profile;
- advising the Supervisory Board on proposals by the Executive Board for the appointment of members to the Executive Leadership Team;
- regularly evaluating the functioning of the Executive Board, the Supervisory Board, the individual members of both these boards, and the Supervisory Board's committees;
- preparing a succession plan for the members of the Executive Board and the Supervisory Board;
- supervising the Executive Board's succession policy, selection criteria and appointment procedures for members of senior management.

## 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 members of the Executive Board, the other members of the Executive Leadership Team and the members of the Supervisory Board on the other hand. In accordance with these rules, decisions to enter into transactions involving conflicting interests of Executive Board or Supervisory Board members of a material significance for the Company and/or the relevant individual must 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 as specified in the articles of association. 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) and decisions relating to major investments.
The most important other authorities of the General Meeting of Shareholders are:

- adopting 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;
- adopting the profit distribution;
- adopting the remuneration policy for the Executive Board and the Executive Leadership Team, and approving the remuneration of the Supervisory Board members;
- appointing and dismissing the external auditor;
- amending the Articles of Association;
- issuing shares, excluding the pre-emptive right, authorising the repurchase of the Company's own shares, reducing the paid-up capital, dissolution and applying 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 in exercising its voting rights in the Company requires the prior approval of the Cooperative's Members' Council.

## Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company with its registered office in Amersfoort, the Netherlands, and its Central Office at Stationsplein 4, Amersfoort. The Company's Articles of Association were most recently amended effective 26 January 2018 and are published on the Company's website. The latter amendments included the provisions concerning the appointment and reappointment terms of Supervisory Board members, and the incorporation of new legislation in the Articles of Association. The Company is registered in the Trade Register of the Chamber of Commerce under number 11057544. On 31 December 2019, the Company's authorised capital amounted to one billion euros divided into 10,000,000 (ten million) shares with a nominal value of 100 euros. The shares are registered. On the same date, 3,702,777 shares were issued, which are all paid up and are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, pre-emptive right, 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. The Supervisory Board nominates a candidate for this purpose. Both the Audit Committee and the Executive Board issue a recommendation to the Supervisory Board in this respect. The remuneration of the external auditor and assignment of the external auditor are approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board. The external auditor is in any event present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor discusses the draft audit plan with the Executive Board before submitting it to the Audit Committee.

**Internal audit function**

The internal auditor operates under the responsibility of the Executive Board. The Supervisory Board supervises the internal audit function and maintains regular contact with the internal auditor. The Executive Board, the Audit Committee and the external auditor are involved in the work plan of the internal audit function and are notified of its findings. The internal auditor has direct access to the Audit Committee and the external auditor.

## 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 provisions listed below are not applied for the reasons set out above and/or below:

2.1, 2.1.7-2.1.9 *Independence of the Supervisory Board:* see motivation under 'Supervisory Board – Composition, independence and appointment'.

2.2.2 *Appointment and reappointment terms of Supervisory Board members:* deviation concerning internal members: see motivation under 'Supervisory Board – composition, independence and appointment'.

2.3.2 *Institution of committees:* the Remuneration Committee and the Selection & Appointment Committee, for practical reasons, have been combined into the Remuneration & Appointment Committee.

2.3.4 *Composition of committees:* the composition of the Remuneration & Appointment Committee and the composition of the Audit Committee deviate from the best-practice provisions of the Code, which stipulate that more than half of the members of the committees should be independent: see motivation under 'Supervisory Board Committees'.

2.8.1-2.8.3 *Takeover bids:* the best-practice provisions in respect of takeover bids are not applicable in view of the fact that the Company is not a listed company and all shares in its capital are held by the Cooperative.

3.4 and 3.4.2 *Publishing of remuneration report, most important components of employment conditions or severance payment of Executive Board member:* the Company applies the statutory exception as defined in Article 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.

4.1-4.4.8 *General Meeting of Shareholders:* the best-practice provision in respect of the general meeting of shareholders, information provision and briefings, voting and the issue of depositary receipts for shares are not applicable in view of the fact that the Company is not a listed company and all shares in its capital are held by the Cooperative.

# Taxes

FrieslandCampina takes its tax payment obligations seriously.

### Tax legislation and regulations

FrieslandCampina aims for timely, correct and full compliance with tax legislation in all jurisdictions in which the Company operates. FrieslandCampina not only follows the letter, but also the spirit of the tax legislation and regulations that apply to all of its activities. This is in line with the standards and values set out in Compass: our guide for good business conduct.

### Application of statutory cooperative tax regime as at 1 January 2020

FrieslandCampina implemented a legal restructuring of its group structure effective 1 January 2020 in order to comply with the statutory cooperative tax regime. This enables FrieslandCampina to make use of the statutory regulation as a means of preventing double taxation on profit for members of the cooperative and the company. A limited partnership (C.V.) structure was created as part of the restructuring. All of the company's activities in the Netherlands were brough into this C.V. effective 1 January 2020, except for the production and invoicing activities. The C.V.'s activities are managed by a direct subsidiary of the company as the managing partner. The restructuring for the purpose of applying the cooperative tax regime does not have any impact on the cooperative's and the company's decision-making and approval rights.

### Tax position in the financial statements

FrieslandCampina provides its stakeholders with reliable information. Financial as well as non-financial figures are transparent, correct, complete and up-to-date. Furthermore, financial reporting complies with local laws and regulations and Group accounting policies.

### Tax planning

FrieslandCampina pays taxes in the countries in which it operates in accordance with the activities of its companies (tax follows the companies). FrieslandCampina operates in accordance with the single tax principle and tries to avoid situations involving double taxation and double non-taxation. The Company does not implement any artificial tax structures without commercial and economic reality. FrieslandCampina adopts fiscally defensible positions.

### Transfer pricing

Intercompany transactions are subject to internal transfer pricing guidelines. These internal guidelines are in accordance with the at arm's length principles set out in the OECD transfer pricing guidelines. It is FrieslandCampina's goal to document the at arm's length conduct of relevant transactions by signing bilateral or unilateral transfer pricing agreements with tax authorities. FrieslandCampina has embraced the Base Erosion and Profit Shifting (BEPS) initiative and has elaborated on this in its transfer pricing documentation to ensure compliance with published guidelines, including the Country Report.

### Tax management and risk management

FrieslandCampina's tax policy and tax control framework promote a culture of consistent, coherent and compliant tax conduct that is in accordance with laws and regulations and with the objective of creating a sustainable and predictable tax position. FrieslandCampina is convinced that building professional relationships with tax authorities based on mutual respect, transparency and trust contributes to this predictability. If possible, this is confirmed in a cooperative compliance regulation. In the Netherlands, FrieslandCampina's homeland, FrieslandCampina is a participant in the Horizontal Monitoring programme of the Netherlands Tax and Customs Authority. FrieslandCampina's Corporate Tax Department reports at least twice a year to the Audit Committee.

# Report of the Supervisory Board

The Supervisory Board is an independent body of the Company responsible for supervising and advising the Executive Board. In addition, the Supervisory Board oversees the general business progress, the strategy and the operational performance of the company. In this respect, the Board also focuses on the effectiveness of the company's internal risk management and control systems and the integrity and quality of the financial reporting. In the performance of its duties, the Supervisory Board is led by the interests of the Company and its associated companies, and takes the relevant interests of all parties involved in the company into consideration in this respect. During the year under review, the Supervisory Board (the 'Board') carried out its tasks in accordance with the applicable laws and regulations and the Articles of Association of Royal FrieslandCampina N.V. (the 'company').

**Meetings of the Supervisory Board**

The Supervisory Board met six times during the year under review. Outside the regular meetings there was also contact among members of the Supervisory Board, as well as with members of the Executive Board and the Executive Leadership Team. To prepare for the meetings, the Chairman and Vice-chairman regularly spoke with the CEO, among others. During the year, the Board also met twice outside the regular meeting cycle to discuss strategy. Furthermore, the Board made working visits to companies in Indonesia, Malaysia and Germany.

The company's desired robustness and decisiveness were discussed, whereby attention was focused on financial flexibility and debt capacity, and the relationship between debt and equity. In that light, the long-term group financing was assessed and the Supervisory Board approved the proposal to issue perpetual listed subordinated bonds for a maximum amount of 300 million euros.

In addition, frequent attention was devoted to the progress of the strategy's implementation, whereby other sub-topics continuously came up for in-depth discussion, and that were also discussed with the Executive Board and other responsible members of the Executive Leadership Team. The Board also discussed the desirability of making the business structure more flexible to

enable the company to even faster and more effectively anticipate opportunities in and demands of its most important markets, for example, by entering into strategic partnerships. The Board furthermore devoted specific attention to the company's result trend during the year under review.

Another important topic was the supply chain, where an improvement programme is being implemented: Supply Chain Unlock. The Board was extensively informed about this. In meetings, attention was also devoted to other topics, such as an analysis of the production network and the required improvements. A long-term plan was prepared for this purpose. An investment proposal for the purchase of land in Indonesia was approved.

An important theme, particularly during the second half of the year under review was due to developments in the sector and in particular the implications for members and the company as a consequence of Cabinet's nitrogen policy. This policy resulted in a great deal of unrest in the sector and among the Cooperative's members. The Board was continuously updated on this issue.

The Supervisory Board also devoted attention to more regular topics, such as the financial position, whereby the Audit Committee reported on its findings to the Board. The annual budget, acquisitions, major investment proposals and the progress of major investment projects, and internal risk management also received due attention. The Board was informed of and approved the internal auditor's Audit Plan and activities. In February of the year under review, the 2018 financial statements and the text of the Annual Report were discussed with the Executive Board and the external auditor, and approved by the Board. The report concerning the findings for the first half-year was set out by the external auditor and the auditor's management letter was discussed with management. It was noted that a proper process was always followed during the year under review and that the coordination between management and the external auditor was good. The report did not contain any material points of attention.

In 2019, special attention was furthermore devoted to the following topics:

- The managers responsible for the operating companies in the Philippines and Germany informed the Board of the state of affairs and the development of the results of their companies. The Board visited the new commercial office of the German operating company in Düsseldorf and became acquainted with the management team.
- The proposals concerning the adjustment of the calculation of the guaranteed price were approved by the Board.
- The Board was furthermore regularly informed of the progress made in the area of sustainability and safety.
- Activities in the area of mergers and acquisitions were regularly discussed and the Board approved the disposal of the operating company Creamy Creation and the company's participation in CSK. On the basis of a historical analysis of larger acquisitions, the Board discussed whether and to what extent the assumptions made in the investment proposals were correct.
- The company's digital activities were discussed, including in light of external developments of which the Board was informed by an external expert.
- The Summit Programme was evaluated, whereby attention was focused on various aspects, such as ongoing project costs, which are under control, and the progress of implementations, which are going well.
- Activities in the area of talent management were reviewed.

Topics such as remuneration, composition of the Executive Board and Executive Leadership Team, and the evaluation of the performance of the Executive Board and the composition of the Supervisory Board, including staffing vacancies on the Board, were discussed in the absence of the members of the Executive Board. During these closed meetings, the conduct of the Supervisory Board's own meetings was also evaluated and certain topics were the subject of further reflection.
The evaluation of the Supervisory Board's own performance and that of its members and committees this year was prepared by the Remuneration and Appointment Committee, which spoke with all Board members. The general

consistent picture that emerged from this is that the Board is operating well and works together in harmony, with full transparency and mutual respect. The relationship with management is also very open. Sufficient information is being shared and the degree of commitment is good. The committees operate as required and the composition of the Board is good in the sense that the members complement each other in the areas of knowledge, experience and personalities. Several points for attention were formulated in relation to the Board's role in the decision-making process for acquisitions. In addition, the Board expressed the desire of focusing the agenda on the most important topics, so that there is sufficient time for these topics during meetings.

### Supervisory Board committees

The Supervisory Board has established two committees that provide advice to the Board on specific tasks and that prepare specific decisions. These are the Audit Committee and the Remuneration & Appointment Committee. The tasks of these committees follow from the committee's regulations, which form part of the Supervisory Board's regulations and are posted on the company's website. These tasks are summarised in the section on Corporate Governance on page 78.

### Audit Committee

During the year under review, the Audit Committee met four times in the presence of management, including the CFO and the officers responsible for the relevant corporate services departments. The CEO was also present at several meetings. The external auditor was also present at these meetings. There also was contact among the members of the Committee and with management, outside the meetings. After each meeting, the Chairman reported to the Supervisory Board on the findings of the Audit Committee. In addition, the Audit Committee met twice a year with the external auditor in the absence of the Executive Board.

The 2018 Annual Report and financial statements were discussed, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report. The development of the 2018 Annual Report drew special attention from the Audit Committee, since it was the first integrated annual report that also included the sustainability report. During discussions of the company's results, the annual and semi-annual reports, the Audit Committee in particular devoted attention to the more technical reporting aspects.

The planned activities of the external auditor were discussed on the basis of the external auditor's Audit Plan, which was approved by the Supervisory Board on the recommendation of the Audit Committee. The 2019 semi-annual report, the 2019 semi-annual report of the external auditor and in particular his findings with respect to interim audits were extensively covered during the year under review. The list of assignments provided to the external auditor by the company was approved by the Audit Committee on four occasions during the year under review. The Audit Committee was of the view that the external auditor maintained its independence.

The Audit Committee was regularly informed by a number of managers (Internal Audit, Internal Control, Enterprise Risk Management, Accounting, Treasury, ICT, Tax and Legal Affairs) about their activities.
Each year the Audit Committee discusses and approves the internal auditor's Audit Plan and activities and advises the Supervisory Board on this. A new approach has been selected for this, whereby the audit activities are aligned with the results of a risk analysis. In addition, during each meeting the internal auditor reports to the Committee on the activities carried out, and the audit findings and the progress on the follow-up actions arising from earlier findings are discussed. Furthermore, the Audit Committee was informed about the operation of the internal control framework and the analysis concerning the segregation of duties. The Audit Committee noted that considerable progress has been achieved in the latter area. The Audit Committee was also briefed on the outcome of the analysis of the key business risks and the measures being implemented to mitigate these risks. Specific accounting subjects that were the topic of discussion included a new bookkeeping rule concerning lease accounting, pension liabilities and revenue reporting, and the execution of the annual goodwill impairment test.

Various topics were discussed with the Treasury function, such as the contingency measures to be taken in different scenarios, such as a liquidity shortfall. The long-term group financing and the planned issue of listed subordinated bonds, as well as other options were discussed by the Committee on multiple occasions. In addition, the credit ratio trends and the credit rating granted by credit assessment institutions were evaluated.
Furthermore, the legal restructuring of the group structure was discussed; this would make it possible to apply the statutory cooperative tax regime.

An update of the implemented and to be implemented improvement actions was provided in the area of industrial automation, including the attraction and training of qualified people and securing sufficient budget. In addition, the Audit Committee discussed the SAP migration approach, which involved the migration of data to a new platform, with special attention to the risks of the migration for the company's business operations.
The progress of the Summit Project was discussed and the Committee noted that the risks and costs are under control and that the implementations are going well.

Every six months, an overview of material claims and provisions for claims, was discussed and management reported on compliance with the FrieslandCampina Code of Conduct, Compass. With respect to the latter, the Audit Committee noted that positive results are being achieved with the underlying programme for good business conduct and that a large majority of employees is aware of this programme.

The 2019 Annual Report and financial statements were discussed in February 2020, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report.

### Remuneration & Appointment Committee

The activities of the Remuneration and Appointment Committee in the area of remuneration included the usual preparation for the Board's decision-making process concerning the achievement by Executive Board members of the objectives for the variable remuneration for the previous year and the formulation of proposals for the structure and objectives for Executive Board members for the year under review. In addition, several minor adjustments to the remuneration policy for the Executive Board and the Executive Leadership Team were discussed. At the end of the year under review, the biennial review of the remuneration of the Executive Board, the Executive Leadership Team and the Supervisory Board was discussed on the basis of a benchmark report prepared by an external consultant, which forms the basis for a recommendation to the Supervisory Board concerning any changes to the remuneration. In March 2019, the details concerning the remuneration of the members of the Executive Board and the Supervisory Board for 2018 were reported to the Members' Council of Zuivelcoöperatie FrieslandCampina U.A.

The Remuneration and Appointment Committee discussed the succession plan for Executive Board members and other Executive Leadership Team members, and was involved in the changes to the Executive Leadership Team. The Committee was informed of the management talent development policy. Furthermore, the Committee discussed the evaluation of the progress relating to performance management with management; this was also discussed with the Central Works Council.

The Committee also made preparations for the appointment of new members to the Supervisory Board and prepared selection criteria for this purpose, in part on the basis of the Board's profile and the experience and competencies of sitting members.

The Remuneration and Appointment Committee made the necessary preparations for the evaluation of the Supervisory Board, its committees and individual members, and for this purpose met with all members of the Supervisory Board. The Committee also spoke with all members of the

Executive Leadership Team and the Executive Board, and reported on this to the Board.

The Remuneration & Appointment Committee met seven times during the year under review and reported to the Supervisory Board on its deliberations. There also was contact among the members of the Committee and with management, outside the meetings. The CEO and the Global Director HR were invited to attend various meetings of the Committee and attended these meetings. Furthermore, members of the Committee met several times with the Central Works Council.

### Attendance during meetings

| Supervisory Board Members | Meetings of the Supervisory Board (8) | Meetings of the Audit Committee (4) | Meetings of the Remuneration & Appointment Committee (7) |
|---|---|---|---|
| J.W. Addink-Berendsen | 7/8 | 4/4 | |
| W. Dekker | 7/8 | | 7/7 |
| B.E.G. ten Doeschot | 8/8 | | |
| L.W. Gunning | 6/8 | | |
| H.T.J. Hettinga | 8/8 | | |
| D.R. Hooft Graafland | 8/8 | 4/4 | |
| C.C.H. Hoogeveen | 8/8 | | |
| A.A.M. Huijben-Pijnenburg | 8/8 | 4/4 | |
| F.A.M. Keurentjes | 8/8 | | 7/7 |
| G. Mulder | 8/8 | | |
| H. Stöcker | 8/8 | | |
| B. van der Veer | 8/8 | 4/4 | |
| W.M. Wunnekink | 8/8 | | 7/7 |

### Composition, independence and diversity

**Composition of the Supervisory Board and its committees; independence**

The Supervisory Board of the company comprises thirteen members. Nine members at the same time are member of the Executive Board of Zuivelcoöperatie FrieslandCampina U.A., while the other members are external Supervisory Board members. All external Board members (being members who are not also a member of the Board of the cooperative) are independent in the sense of the Corporate Governance Code (the 'Code') and the Supervisory Board's regulations.
The composition of the Supervisory Board and its committees as at 14 February 2020 is shown on page 184 to 186.

Hans Stöcker was reappointed for a third term of four years. Ben van der Veer, Tex Gunning and Bert ten Doeschot stepped down at the end of their current term, effective 17 December 2019. Ben van der Veer and Tex Gunning completed a term of ten and eight years, respectively, as member of the Supervisory Board of FrieslandCampina. The Board is very grateful for their valuable contributions to the Board's deliberations, whereby their knowledge and experience were highly valued. Bert ten Doeschot has decided not to make himself available for a second term in relation to the required time commitments and his ambitions as a dairy farmer. The Board respects his decision and also thanks him for his efforts and contribution.
To fill the resulting vacancies, Angelien Kemna, Heiko Schipper and Elze Jellema were appointed, also effective 17 December 2019. Angelien Kemna succeeds Ben van der Veer as Chairman of the Audit Committee. Angelien Kemna, Ben van der Veer and René Hooft Graafland each qualify as financial expert in the sense of the Supervisory Board's regulations.

**Diversity**

The aim is to achieve a balanced composition of the Supervisory Board, where the combination of different experiences, backgrounds, skills and independence of its members best enables the Supervisory Board to discharge its various obligations in relation to the company and its stakeholders. The aim is also to achieve a balanced ratio of men and women on the Supervisory

Board. The target in this respect is to have at least 30 percent of the seats on the Supervisory Board occupied by women and at least 30 percent by men. With four female members, the Supervisory Board's composition is in line with the diversity policy.

## Composition and Diversity of the Executive Board

The composition of the Executive Board as at 14 February 2020, is reported on page 187 for the year under the review.

### Diversity

The aim of achieving a balanced composition also applies to the Executive Board and the Executive Leadership Team, where the combination of different experiences, backgrounds, skills and independence of members best enables the Executive Board and the Executive Leadership Team to function optimally. In addition, the aim is to achieve a balanced ratio of men and women on the Executive Board, as well as the Executive Leadership Team, with the objective of achieving a representation of at least 30 percent men and at least 30 percent women. With the composition of the Executive Board and the Executive Leadership Team as at 14 February 2020, this objective has been met. Because, in general, the preference is to recruit internal candidates for both bodies, it is important that the ranks below the Executive Board also include sufficient women candidates. FrieslandCampina pursues a diversity policy focused on increasing the number of women in these ranks.

## Financial statements and profit appropriation

In the meeting of the Supervisory Board of 14 February 2020, the Supervisory Board discussed the 2019 financial statements with the Executive Board, and approved the financial statements, after obtaining the advice of the Audit Committee, which had earlier discussed the financial statements in February. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which provided an unqualified auditor's opinion on them. Of the 278 million euro profit, 64 million euros will be attributed to the non-controlling interests and 158 million euros will be added to the retained earnings. The remaining profit will be appropriated as follows: 48 million euros will be reserved for the interest payments to holders of member bonds and 8 million euros will be reserved for the interest payment on the cooperative's loan to the company.

The General Meeting of Shareholders will be asked to discharge the members of the Executive Board for their management during the 2019 financial year. Furthermore, the General Meeting of Shareholders will be asked to discharge the members of the Supervisory Board for their supervision of the Executive Board during the 2019 financial year.

On 25 March 2020, the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') will be asked to grant approval of the decision to adopt the 2019 financial statements of Royal FrieslandCampina N.V., including the profit appropriation. This decision is taken by the Board of the cooperative, which exercises the cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the company.

## In conclusion

The Supervisory Board is very grateful to the Executive Board, the Executive Leadership Team and all employees of FrieslandCampina, for their tremendous efforts and dedication in 2019.

Supervisory Board
Amersfoort, 14 February 2020

## Roster of appointments and retirements of the Supervisory Board

(as at 17 December 2019) )

| | Start date of initial term | Reappointed for new term in December | Expiry of current term: in December |
|---|---|---|---|
| J.W. Addink-Berendsen | 16 December 2014 | 2018 | 2022 |
| W. Dekker[1] | 1 July 2017 | | 2020 |
| H.T.J. Hettinga | 20 December 2016 | | 2020 |
| D.R. Hooft Graafland[1] | 1 May 2015 | 2018 | 2022 |
| C.C.H. Hoogeveen | 19 December 2017 | | 2021 |
| A.A.M. Huijben-Pijnenburg | 15 December 2010 | 2014, 2018 | 2022 |
| E. Jellema | 17 December 2019 | | 2023 |
| A.G.Z. Kemna[1] | 17 December 2019 | | 2023 |
| F.A.M. Keurentjes[2] | 31 December 2008 | 2010, 2014, 2018 | 2022 |
| G. Mulder | 20 December 2016 | | 2020 |
| H. Stöcker | 14 December 2011 | 2015, 2019 | 2023 |
| H. W.J. Schipper | 17 December 2019 | | 2023 |
| W.M. Wunnekink | 16 December 2009 | 2013, 2017 | 2021 |

[1] Supervisory Board members who are not members of the Board of the Cooperative, are appointed for a maximum of two four-year terms, followed by a maximum of two terms of two years. The other members of the Supervisory Board can be reappointed for a maximum of two four-year terms, with the exception of the Chairman (see the footnote below for this exception).

[2] The Chairman is eligible for reappointment for an additional (fourth) term under the Articles of Association.

# Financial statements

# Content


## Consolidated financial statements

**Consolidated income statement** 91
**Consolidated statement of comprehensive income** 92
**Consolidated statement of financial position** 93
**Consolidated statement of cash flows** 94
**Consolidated statement of changes in equity** 95
**Notes to the consolidated financial statements** 97
- General 97
- Basis of preparation 97
- Consolidation of entities 99
- Segmentation 99
- Acquisitions 102
- Revenue 103
- Operating expenses 103
- Other operating costs and income 104
- Finance income and costs 105
- Income tax expense 106
- Property, plant and equipment 108
- Intangible assets 110
- Biological assets 112
- Joint ventures and associates 113
- Other financial assets 113
- Inventories 114
- Trade and other receivables 114
- Cash and cash equivalents 115
- Assets and liabilities held for sale 115
- Equity 115
- Employee benefits 119
- Deferred tax assets and liabilities 124
- Provisions 126
- Interest-bearing borrowings 127
- Other financial liabilities 129
- Trade and other payables 131
- Commitments and contingencies 131
- Transactions with related parties 132
- Remuneration of the Supervisory Board and the Executive Board 134
- Financial risk management and financial instruments 134
- Specification of external auditor's fees 144
- Subsequent events 144
- Significant accounting policies 144

**Principal subsidiaries, joint ventures and associates** 158

## Company financial statements

**Company statement of financial position** 159
**Company income statement** 160
**Notes to the company financial statements** 161
- General 161
- Investments in subsidiaries 161
- Loans to subsidiaries 161
- Other receivables 161
- Equity attributable to the shareholder and other providers of capital 162
- Interest-bearing borrowings 163
- Current liabilities 164
- Other financial assets and liabilities 164
- Financial instruments 164
- Commitments and contingencies 165
- Remuneration of the Supervisory Board and the Statutory Directors 165
- Subsequent events 165
- Proposed appropriation of profit attributable to the shareholder 165

## Other information

**Provisions of the Articles of Association governing profit appropriation** 166

# Consolidated income statement

In millions of euros

| | Note | 2019 | 2018 |
|---|---|---|---|
| Revenue | (3) | 11,297 | 11,553 |
| Cost of goods sold | (4) | -9,477 | -9,761 |
| **Gross profit** | | **1,820** | **1,792** |
| | | | |
| Advertising and promotion costs | (4) | -560 | -540 |
| Selling and general administrative costs | (4) | -915 | -867 |
| Other operating costs | (5) | -36 | -71 |
| Other operating income | (5) | 123 | 28 |
| **Operating profit** | | **432** | **342** |
| | | | |
| Finance income | (6) | 17 | 45 |
| Finance costs | (6) | -44 | -52 |
| Share of profit of joint ventures and associates, net of tax | (11) | 21 | 22 |
| **Profit before tax** | | **426** | **357** |
| | | | |
| Income tax | (7) | -148 | -154 |
| **Profit for the year** | | **278** | **203** |
| | | | |
| Profit attributable to: | | | |
| • holders of member bonds | | 48 | 47 |
| • provider of Cooperative loan | | 8 | 9 |
| • shareholder | | 158 | 74 |
| **Shareholder and other providers of capital** | | **214** | **130** |
| Holders of non-controlling interests | | 64 | 73 |
| | | **278** | **203** |

# Consolidated statement of comprehensive income

In millions of euros

| | 2019 | | 2018 | |
|---|---|---|---|---|
| **Profit for the year** | | **278** | | **203** |
| Items that will or may be reclassified to the income statement: | | | | |
| • Effective portion of cash flow hedges, net of tax | 11 | | | |
| • Currency translation differences, net of tax | 10 | | -66 | |
| • Share in other comprehensive income of joint ventures and associates accounted for using the equity method, net of tax | 3 | | 1 | |
| | | **24** | | **-65** |
| Items that will never be reclassified to the income statement: | | | | |
| • Value changes in the fair value of securities, net of tax | -1 | | | |
| • Remeasurement of liabilities (assets) under defined benefit plans, net of tax | -42 | | -4 | |
| | | **-43** | | **-4** |
| **Other comprehensive income, net of tax** | | **-19** | | **-69** |
| **Total comprehensive income for the year** | | **259** | | **134** |
| Total comprehensive income attributable to: | | | | |
| • shareholder and other providers of capital | | 202 | | 80 |
| • holders of non-controlling interests | | 57 | | 54 |
| | | **259** | | **134** |

# Consolidated statement of financial position

At 31 December, in millions of euros

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | (8) | 3,509 | 3,282 |
| Intangible assets | (9) | 1,638 | 1,710 |
| Biological assets | (10) | 6 | 8 |
| Deferred tax assets | (19) | 202 | 229 |
| Joint ventures and associates | (11) | 114 | 124 |
| Employee benefits | (18) | 7 | 8 |
| Other financial assets | (12) | 34 | 47 |
| **Non-current assets** | | **5,510** | **5,408** |
| Inventories | (13) | 1,529 | 1,366 |
| Trade and other receivables | (14) | 1,603 | 1,636 |
| Income tax receivable | | 26 | 34 |
| Other financial assets | (12) | 32 | 21 |
| Cash and cash equivalents | (15) | 342 | 356 |
| Assets held for sale | (16) | 7 | 2 |
| **Current assets** | | **3,539** | **3,415** |
| **Total assets** | | **9,049** | **8,823** |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Equity** | | | |
| Issued capital | | 370 | 370 |
| Share premium | | 114 | 114 |
| Other reserves | | -252 | -282 |
| Retained earnings | | 1,231 | 1,102 |
| **Equity attributable to shareholder** | | **1,463** | **1,304** |
| Member bonds | | 1,641 | 1,610 |
| Cooperative loan | | 295 | 295 |
| **Equity attributable to shareholder and other providers of capital** | | **3,399** | **3,209** |
| Non-controlling interests | | 357 | 343 |
| **Total equity** | (17) | **3,756** | **3,552** |
| **Liabilities** | | | |
| Employee benefits | (18) | 465 | 433 |
| Deferred tax liabilities | (19) | 106 | 129 |
| Provisions | (20) | 14 | 14 |
| Interest-bearing borrowings | (21) | 1,038 | 1,035 |
| Other financial liabilities | (22) | 62 | 67 |
| **Non-current liabilities** | | **1,685** | **1,680** |
| Interest-bearing borrowings | (21) | 579 | 616 |
| Trade and other payables | (23) | 2,878 | 2,742 |
| Income tax payable | | 112 | 142 |
| Provisions | (20) | 32 | 86 |
| Other financial liabilities | (22) | 7 | 7 |
| **Current liabilities** | | **3,608** | **3,591** |
| **Total liabilities** | | **5,293** | **5,271** |
| **Total equity and liabilities** | | **9,049** | **8,823** |

# Consolidated statement of cash flows

In millions of euros

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Operating activities** | | | |
| **Profit before tax** | | **426** | **357** |
| Adjustments for: | | | |
| • interest | (6) | 29 | 27 |
| • depreciation of property, plant and equipment and amortisation of intangible assets | (8) (9) | 441 | 362 |
| • impairments of non-current assets and reversals of impairments | (8) (9) | 43 | 22 |
| • share of profit of joint ventures and associates | (11) | -21 | -22 |
| • other finance income and costs | | -2 | -29 |
| • issue of member bonds | | 31 | 14 |
| • gain on divestments | | -115 | -6 |
| **Total adjustments** | | **406** | **368** |
| Movements in: | | | |
| • inventories | | -152 | 162 |
| • receivables | | 51 | 50 |
| • liabilities | | 59 | -178 |
| • employee benefits | | -21 | -36 |
| • provisions | (20) | -54 | 24 |
| **Total movements** | | **-117** | **22** |
| **Cash flows from operating activities** | | **715** | **747** |
| Dividends received | | 23 | 23 |
| Income tax paid | | -145 | -120 |
| Interest paid | | -43 | -40 |
| Interest received | | 17 | 9 |
| **Net cash flows from operating activities** | | **567** | **619** |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Net cash flows from operating activities** | | **567** | **619** |
| **Investing activities** | | | |
| Investments in property, plant and equipment and intangible assets | | -372 | -485 |
| Disposals of property, plant and equipment, intangible assets and assets held for sale | | 15 | 13 |
| Divestments of businesses, net of cash and cash equivalents | | 168 | |
| Received repayments of loans issued | | 27 | 16 |
| Loans issued | | -1 | -1 |
| Acquisitions, net of acquired cash and cash equivalents | (2) (11) | -22 | -37 |
| Insurance compensation received for material damages | | | 4 |
| **Net cash flows used in investing activities** | | **-185** | **-490** |
| **Financing activities** | | | |
| Dividend paid to holders of member bonds and non-controlling interests | | -43 | -63 |
| Interest paid to holders of member bonds | | -43 | -42 |
| Interest-bearing borrowings drawn | | 1,742 | 851 |
| Repayment of interest-bearing borrowings | | -1,924 | -843 |
| Repayment of lease liabilities | | -70 | |
| Payment of contingent considerations | (27) | -2 | |
| Investments in non-controlling interests | | | -2 |
| Settlement of derivatives and other | | | -2 |
| **Net cash flows used in financing activities** | | **-340** | **-101** |
| **Net cash flow** | | **42** | **28** |
| Cash and cash equivalents at 1 January[1] | | 224 | 193 |
| Net cash flow | | 42 | 28 |
| Currency translation differences on cash and cash equivalents | | 12 | 3 |
| **Cash and cash equivalents at 31 December[1]** | | **278** | **224** |

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

# Consolidated statement of changes in equity

In millions of euros

| | | | | | | | | | | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other reserves | | | | | |
| | Issued capital | Share premium reserve | Member bonds | Cooperative loan | Cash flow hedge reserve | Currency translation reserve | Retained earnings | Equity[1] | Non-controlling interests | Total |
| **At 1 January** | 370 | 114 | 1,610 | 295 | -25 | -257 | 1,102 | **3,209** | 343 | **3,552** |
| Comprehensive income: | | | | | | | | | | |
| • profit for the year | | | 48 | 8 | | | 158 | **214** | 64 | **278** |
| • other comprehensive income | | | | | 11 | 19 | -42 | **-12** | -7 | **-19** |
| **Total comprehensive income for the year** | | | **48** | **8** | **11** | **19** | **116** | **202** | **57** | **259** |
| Transactions with shareholder and other providers of capital recognised directly in equity: | | | | | | | | | | |
| • dividends paid to non-controlling interests | | | | | | | | | -43 | **-43** |
| • interest paid to provider of Cooperative loan | | | | -8 | | | 2 | **-6** | | **-6** |
| • interest paid to holders of member bonds | | | -48 | | | | 11 | **-37** | | **-37** |
| • issue of member bonds | | | 31 | | | | | **31** | | **31** |
| **Total transactions with shareholder and other providers of capital** | | | **-17** | **-8** | | | **13** | **-12** | **-43** | **-55** |
| **At 31 December** | **370** | **114** | **1,641** | **295** | **-14** | **-238** | **1,231** | **3,399** | **357** | **3,756** |

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

| | | | | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Other reserves | | | | | |
| | Issued capital | Share premium reserve | Member bonds | Cooperative loan | Cash flow hedge reserve | Currency translation reserve | Retained earnings | Equity[1] | Non-controlling interests | Total |
| **At 1 January** | 370 | 114 | 1,596 | 295 | -25 | -211 | 1,039 | **3,178** | 334 | **3,512** |
| Comprehensive income: | | | | | | | | | | |
| • profit for the year | | | 47 | 9 | | | 74 | **130** | 73 | **203** |
| • other comprehensive income | | | | | | -46 | -4 | **-50** | -19 | **-69** |
| **Total comprehensive income for the year** | | | **47** | **9** | | **-46** | **70** | **80** | **54** | **134** |
| Transactions with shareholder and other providers of capital recognised directly in equity: | | | | | | | | | | |
| • dividends paid to holders of non-controlling interests | | | | | | | | | -63 | **-63** |
| • interest paid to provider of Cooperative loan | | | | -9 | | | 2 | **-7** | | **-7** |
| • interest paid to holders of member bonds | | | -47 | | | | 11 | **-36** | | **-36** |
| • issue of member bonds | | | 14 | | | | | **14** | | **14** |
| **Total transactions with shareholder and other providers of capital** | | | **-33** | **-9** | | | **13** | **-29** | **-63** | **-92** |
| Transactions in ownership interests in subsidiaries: | | | | | | | | | | |
| • transactions with holders of non-controlling interest | | | | | | | -20 | **-20** | 18 | **-2** |
| **Total of transactions in ownership interests in subsidiaries** | | | | | | | **-20** | **-20** | **18** | **2** |
| **At 31 December** | **370** | **114** | **1,610** | **295** | **-25** | **-257** | **1,102** | **3,209** | **343** | **3,552** |

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

# 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 Company is registered in the Chamber of Commerce's Trade Register, No. 11057544. The consolidated financial statements for the year ended 31 December 2019 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

Zuivelcoöperatie FrieslandCampina U.A. ('Cooperative') is the sole shareholder of Royal FrieslandCampina N.V.

FrieslandCampina processes over 10 billion kilograms of member milk per year into a very varied range of dairy products containing valuable nutrients for consumers. In the professional market, FrieslandCampina is a key producer and supplier of dairy products to bakeries, restaurants, bars and fast-food chains. FrieslandCampina also produces and supplies high quality ingredients for manufacturers in the food industry and pharmaceutical sector.

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

## Basis of preparation

The key accounting policies for financial reporting are included in Note 30.

### Changes in accounting policies

New and revised standards, changes and interpretations as applied by FrieslandCampina

The following changes are applicable for the first time in 2019 and affect the consolidated financial statements of FrieslandCampina:

*IFRS 16 'Leases'*

IFRS 16 sets out principles for the standard accounting treatment of all leases in the balance sheet. This means that the assets and liabilities relating to operational leases are also recognised in the balance sheet.

In applying IFRS 16, FrieslandCampina made use of the following exemptions, as permitted by the standard:

- leases with a term of less than 12 months are classified as short-term leases and are recognised in the income statement;
- lease costs for low-value assets are recognised in the income statement;
- initial direct costs are excluded from the measurement of right-of-use assets as per transition date.

Lease commitments that were not recognised in the balance sheet as at 31 December 2018 reconcile as follows with the lease liabilities in the balance sheet as at 1 January 2019:

| | |
|---|---|
| **Lease commitments, not recognised in the balance sheet as at 31 December 2018** | **237** |
| Short-term leases, low-value leases and other non-lease components | -9 |
| Financial leases | 5 |
| Discounting impact | -17 |
| Effect of different treatment of extension options and options for the early termination of contracts | 4 |
| **Lease liabilities as at 1 January 2019** | **220** |

The discounting impact as at 1 January 2019 is determined on the basis of the interest rate specifically included in the contract or FrieslandCampina's incremental borrowing rate. The weighted average incremental borrowing rate as applied in the calculation of the lease liabilities as at 1 January 2019 is 1.85%.

FrieslandCampina applied IFRS 16 effective from 1 January 2019 using the modified retrospective approach, whereby the 2018 comparative figures have not been adjusted. The cumulative effect of the first application of this standard does not have any impact on equity as at 1 January 2019.

*Amendments to IFRS 9, IAS 39 and IFRS 7*
FrieslandCampina has elected to early adopt the 'Amendments to IFRS 9, IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter. The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate.

New and revised standards, amendments and interpretations issued but not yet effective for the financial year starting on 1 January 2019 without early adoption
New standards, amendments to standards and interpretations that are effective for annual periods starting after 1 January 2019, have not been applied to these consolidated financial statements. These are not expected to have any significant impact on the consolidated financial statements of FrieslandCampina.

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

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

After authorisation for issue by the Executive Board and the Supervisory Board on 14 February 2020 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2019 will be made available for publication by the Executive Board on 27 February 2020. On 25 March 2020 the financial statements will be submitted for approval to the General Meeting of Shareholders of Royal FrieslandCampina N.V. being Zuivelcoöperatie FrieslandCampina U.A., represented by its Board.

**Basis of measurement**
The financial statements have been prepared on a historical cost basis, except for the following material items in the statement of financial position:
- derivatives measured at fair value with changes in value recognised in the income statement or in equity via the other comprehensive income;
- net pension liability (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.

**Judgements, estimates and assumptions**
The preparation of the consolidated financial statements in accordance with EU-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 taking into account the opinion and advice of (external) experts. Gains or losses following changes in 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 8 and 9);
- useful life of property, plant and equipment and intangible assets (Notes 8 and 9);
- utilisation of tax losses and uncertain tax positions (Notes 7, 19 and 24);
- measurement of defined benefit obligations (Note 18);
- valuation of put option liabilities (Note 27);
- provisions and contingencies (Notes 20 and 24);
- key assumptions used to determine the fair value of business combinations and financial instruments (Notes 2 and 27).

### Consolidation of entities

FrieslandCampina has a direct interest of 50% in DMV-Fonterra Excipients GmbH & Co. KG. In addition, FrieslandCampina has an interest of 51% in FrieslandCampina Engro Pakistan Ltd.

FrieslandCampina has control over these entities, among others due to a majority in the management board and the entity's dependence on the know-how, brands and supply of goods made available by FrieslandCampina. These entities are therefore fully consolidated with the recognition of a non-controlling interest.

FrieslandCampina holds a 74.53% interest in Het Kaasmerk B.V. and a 60% interest in United Dutch Arizona Dairy Inc. FrieslandCampina holds more than 50% of the shares in these entities, however, FrieslandCampina has no control over these entities based on the agreements. These interests are accounted for using the equity method.

FrieslandCampina has an 89.56% interest in CMG Grundstücksverwaltungs- und Beteiligungs- GmbH and is entitled to 100% of the results of this company based on an agreement. This entity is fully consolidated with the recognition of a minority interest.

For more detailed information regarding the above see Notes 2, 11 and 17 of the financial statements.

## 1. Segmentation

FrieslandCampina distinguishes four segments, consisting of the four market-oriented business groups:

- Consumer Dairy provides consumers with dairy products such as milk, yogurt, condensed milk, dairy drinks, cheese, butter and cream. For professional customers such as bakers, pastry chefs, chocolatiers, chefs and caterers, Consumer Dairy offers a wide range of cream, butter, desserts and fillings.

- Specialised Nutrition supplies food to specific consumer groups, such as the elderly, children and athletes. For young children who are completely dependent on reliable food with a unique combination of nutrients, for adults in different stages of life and for athletes who see sports nutrition as an important factor for their performance.

- Ingredients supplies dairy-based ingredients. These offer added value – with application-oriented innovations – to producers of infant food, pharmaceutical industry and to producers of animal feed. The business group works closely with customers and focuses on markets for children, the elderly and medical nutrition.

- Dairy Essentials produces and sells Dutch cheeses such as Gouda, Edam, Maasdam and a wide range of foreign cheeses and various types of butters and milk powders for professional and industrial buyers. The business group takes care of distributing all incoming milk and valorising large volumes of milk at the lowest possible costs with the highest possible return.

## Segmentation by business group

| | Consumer Dairy | Specialised Nutrition | Ingredients | Dairy Essentials | Other | Elimination | 2019 Total |
|---|---|---|---|---|---|---|---|
| **Revenue third parties** | 5,867 | 1,205 | 1,773 | 2,449 | 3 | | **11,297** |
| Internal deliveries[1] | 324 | 91 | 566 | 1,541 | | -2,522 | |
| **Total revenue** | **6,191** | **1,296** | **2,339** | **3,990** | **3** | **-2,522** | **11,297** |
| | | | | | | | |
| **Operating result** | 289 | 260 | 173 | -39 | -251 | | **432** |
| Result from joint ventures and associates | | | 5 | 5 | 11 | | **21** |
| Financing income and -expenses | | | | | | | **-27** |
| **Profit before tax** | | | | | | | **426** |
| | | | | | | | |
| Operating result as % net revenue from third parties | 4.9 | 21.6 | 9.8 | -1.6 | | | **3.8** |
| Carrying amount of assets employed in operating activities[2] | 3,662 | 567 | 2,433 | 1,566 | 912 | -846 | **8,293** |
| Carrying amount of other assets | | | | | | | **756** |
| **Total assets** | | | | | | | **9,049** |
| | | | | | | | |
| Liabilities resulting from operational activities[3] | 1,719 | 296 | 465 | 667 | 1,096 | -846 | **3,397** |
| Other liabilities | | | | | | | **1,896** |
| **Total liabilities** | | | | | | | **5,293** |
| | | | | | | | |
| Investments in property, plant and equipment and intangible assets[4] | 153 | 8 | 137 | 55 | 44 | | **397** |
| Depreciation of property, plant and equipment and amortization of intangible assets | -176 | -14 | -116 | -64 | -71 | | **-441** |
| Impairment of non-current assets | -1 | -20 | -16 | -8 | -5 | | **-50** |
| Reversal of impairment of non-current assets | 7 | | | | | | **7** |
| Carrying amount of share in joint ventures and associates | | | 32 | 4 | 78 | | **114** |

1 Internal deliveries are accounted for in a similar way as transactions with third parties.
2 Relates to carrying amount of assets excluding deferred tax assets, joint ventures and associates, loans granted, securities, long-term receivables, corporate income tax receivables, receivables from Zuivelcoöperatie FrieslandCampina U.A., cash and assets held for sale.
3 Relates to employee benefits, provisions, derivative obligations, trade creditors and other obligations, excluding obligations with regard to Zuivelcoöperatie FrieslandCampina U.A.
4 Relates to investments in property, plant and equipment and intangible assets, excluding investments related to right of use assets.

| | | | | | | | 2018 |
|---|---|---|---|---|---|---|---|
| | Consumer Dairy | Specialised Nutrition | Ingredients | Dairy Essentials | Other | Elimination | Total |
| **Revenue third parties** | 5,612 | 1,246 | 1,734 | 2,947 | 14 | | **11,553** |
| Internal deliveries[1] | 336 | 76 | 773 | 1,474 | | -2,659 | |
| **Total revenue** | **5,948** | **1,322** | **2,507** | **4,421** | **14** | **-2,659** | **11,553** |
| | | | | | | | |
| **Operating result** | 224 | 346 | 213 | -203 | -238 | | **342** |
| Result from joint ventures and associates | | | 6 | 4 | 12 | | **22** |
| Financing income and -expenses | | | | | | | **-7** |
| **Profit before tax** | | | | | | | **357** |
| | | | | | | | |
| Operating result as % net revenue from third parties | 4.0 | 27.8 | 12.3 | -6.9 | | | **3.0** |
| Carrying amount of assets employed in operating activities[2] | 3,554 | 545 | 2,337 | 1,533 | 883 | -827 | **8,025** |
| Carrying amount of other assets | | | | | | | **798** |
| **Total assets** | | | | | | | **8,823** |
| | | | | | | | |
| Liabilities resulting from operational activities[3] | 1,651 | 265 | 532 | 638 | 1,027 | -827 | **3,286** |
| Other liabilities | | | | | | | **1,985** |
| **Total liabilities** | | | | | | | **5,271** |
| | | | | | | | |
| Investments in property, plant and equipment and intangible assets | 131 | 12 | 204 | 61 | 53 | | **461** |
| Depreciation of property, plant and equipment and amortization of intangible assets | -151 | -7 | -97 | -59 | -48 | | **-362** |
| Impairment of non-current assets | -6 | | -17 | -8 | | | **-31** |
| Reversal of impairment of non-current assets | | | | 8 | | | **8** |
| Carrying amount of share in joint ventures and associates | | | 17 | 32 | 75 | | **124** |

1 Internal deliveries are valued in a similar way as transactions with third parties.
2 Relates to carrying amount of assets excluding deferred tax assets, joint ventures and associates, loans granted, securities, long-term receivables, corporate income tax receivables, receivables from Zuivelcoöperatie FrieslandCampina U.A., cash and assets held for sale.
3 Relates to employee benefits, provisions, derivative obligations, trade creditors and other obligations, excluding obligations with regard to Zuivelcoöperatie FrieslandCampina U.A.

| Geographical information | 2019 | | 2018 | |
|---|---|---|---|---|
| | Revenue | Carrying amount of operating non-current assets | Revenue | Carrying amount of operating non-current assets |
| The Netherlands | 4,688 | 3,455 | 5,162 | 3,404 |
| Germany | 944 | 385 | 981 | 374 |
| Rest of Europe | 1,507 | 365 | 1,433 | 328 |
| Asia and Oceania | 3,194 | 783 | 3,138 | 750 |
| Africa and the Middle East | 788 | 106 | 708 | 85 |
| North and South America | 176 | 54 | 131 | 49 |
| | **11,297** | **5,148** | **11,553** | **4,990** |

The revenue is separated according to the country in which the operating company is located. The carrying amount of operating non-current assets relates to property, plant and equipment and intangible assets. Rest of Europe contains in particular the countries France, Belgium and Greece. Asia and Oceania contain in particular the countries Indonesia, China, Philippines, Thailand and Hong Kong. See Note 3 for a breakdown of revenue according to the customer's geographical location.

## 2. Acquisitions

### Acquisitions 2019

#### Cheese cutting and packaging activities

On 8 April 2019 FrieslandCampina acquired the activities of W. Bakker Kaashandel B.V. through the acquisition of 100% of the issued shares and the acquisition of the real estate in Bodegraven for the total amount of EUR 6 million. The activities concern the cutting, processing and packaging of cheese. The fair value of the net identifiable assets and liabilities assumed has been set at EUR 3 million. The goodwill from this acquisition amounts to EUR 3 million.

This acquisition is not material for FrieslandCampina in the context of the disclosure requirements of IFRS 3 Business Combinations.

The activities of the above mentioned acquisition have been incorporated in the business group Dairy Essentials.

### Acquisitions 2018

The 'purchase price allocations' relating to the acquisitions of Jana Foods, Millán Vicente, Best Cheese USA en Best Cheese Netherlands were finalised in 2019. The final 'purchase price allocations' resulted in a change in the fair value of the acquired intangible assets, inventories, other payables and goodwill recognised.

The fair value of the intangible fixed assets and inventories have each been reduced by EUR 1 million, mainly as a result of the final determination of the valuation of customer relationships. In addition, the fair value of the contingent consideration has been increased by EUR 1 million. As a result of these adjustments, the deferred tax liability and the recognized goodwill have changed. The comparative figures were adjusted accordingly.

The total fair value of the assets acquired and liabilities assumed that were recognized on acquisition date are:

| | Provisional 'purchase price allocation' | Adjustment | Final 'purchase price allocation' |
|---|---|---|---|
| Property, plant and equipment | 6 | | 6 |
| Intangible assets | 12 | -1 | 11 |
| Inventories | 12 | -1 | 11 |
| Trade receivables and other assets | 13 | | 13 |
| Cash and cash equivalents | 2 | | 2 |
| Deferred tax liabilities | -2 | 1 | -1 |
| Other payables | -21 | -1 | -22 |
| **Net identifiable assets and liabilities** | **22** | **-2** | **20** |

Goodwill from the acquisitions is recognized as follows:

| | Provisional 'purchase price allocation' | Adjustment | Final 'purchase price allocation' |
|---|---|---|---|
| Considerations paid | 39 | | 39 |
| Contingent considerations | 6 | 1 | 7 |
| Fair value of net identifiable assets and liabilities | -22 | 2 | -20 |
| **Goodwill** | **23** | **3** | **26** |

## 3. Revenue

| Revenue by geographical location of customers | 2019 | % | 2018 | % |
|---|---|---|---|---|
| The Netherlands | 2,273 | 20 | 2,588 | 22 |
| Germany | 991 | 9 | 1,069 | 9 |
| Rest of Europe | 2,666 | 24 | 2,737 | 24 |
| Asia and Oceania | 3,834 | 34 | 3,753 | 32 |
| Africa and the Middle East | 1,078 | 9 | 1,001 | 9 |
| North and South America | 455 | 4 | 405 | 4 |
| | **11,297** | **100** | **11,553** | **100** |

Revenue primarily consists of the sale of goods with settlement of the performance obligation by FrieslandCampina at a point in time and not over time.

## 4. Operating expenses

| | 2019 | 2018 |
|---|---|---|
| Milk from member dairy farmers | -3,871 | -3,933 |
| Cost of other raw materials, consumables used and commodities | -3,151 | -3,463 |
| Employee benefit expenses | -1,180 | -1,123 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | -441 | -362 |
| Impairments of property, plant and equipment, intangible assets and assets held for sale | -48 | -15 |
| Advertising and promotion costs | -560 | -540 |
| Transport costs | -521 | -500 |
| Service costs from third parties and agency staff costs | -324 | -334 |
| Energy costs | -180 | -185 |
| Other | -676 | -713 |
| **Total of the cost of goods sold, advertising and promotion costs and selling, general and administrative costs** | **-10,952** | **-11,168** |

As a result of IFRS 16, the costs of depreciation of property, plant and equipment and amortization of intangible assets include EUR 61 million (2018: nil) depreciation for right-of-use assets, see Note 8.

Part of other operating expenses are lease expenses of in total EUR 18 million. These costs are primarily related to the short-term leases of forklift trucks, variable expenses for storage locations and the lease of low-value assets, such as pallets, industrial clothing and office supplies.

The other operating expenses further mainly relate to other personnel expenses, office costs and costs for repairs and maintenance.

In 2019 research and development expenses amounts to EUR 82 million (2018: EUR 80 million), of which EUR 55 million relates to employee benefit expenses (2018: EUR 44 million).

For an explanation of the impairments, see Note 8 and 9.

| Employee benefit expenses | 2019 | | 2018 | |
|---|---|---|---|---|
| | | % | | % |
| Wages and salaries | -966 | 82 | -914 | 81 |
| Social security charges | -111 | 9 | -109 | 10 |
| Expenses under long-term employee benefits | -103 | 9 | -100 | 9 |
| | **-1,180** | **100** | **-1,123** | **100** |

| Employees by business group (average number of FTEs) | 2019 | | 2018 | |
|---|---|---|---|---|
| | | % | | % |
| Consumer Dairy | 13,445 | 57 | 13,633 | 57 |
| Specialised Nutrition | 2,387 | 10 | 2,345 | 10 |
| Ingredients | 3,293 | 14 | 3,248 | 14 |
| Dairy Essentials | 2,731 | 11 | 2,743 | 11 |
| Corporate and other | 1,960 | 8 | 1,800 | 8 |
| | **23,816** | **100** | **23,769** | **100** |

| Employees by geographical region (average number of FTEs) | 2019 | | 2018 | |
|---|---|---|---|---|
| | | % | | % |
| The Netherlands | 7,948 | 33 | 7,701 | 32 |
| Germany | 1,481 | 6 | 1,623 | 7 |
| Rest of Europe | 3,997 | 17 | 3,937 | 17 |
| Asia and Oceania | 9,183 | 39 | 9,306 | 39 |
| Africa and the Middle East | 1,025 | 4 | 1,029 | 4 |
| North and South America | 182 | 1 | 173 | 1 |
| | **23,816** | **100** | **23,769** | **100** |

## 5. Other operating costs and income

| Other operating costs | 2019 | 2018 |
|---|---|---|
| Costs of implementing the ICT standardisation programme | -15 | -18 |
| Restructuring costs and release of restructuring provisions (Note 20) | -15 | -33 |
| Impairments of non-current assets (and reversals thereof) due to restructuring | 5 | -7 |
| Other operating costs | -11 | -13 |
| | **-36** | **-71** |

| Other operating income | 2019 | 2018 |
|---|---|---|
| Gain on disposal of property, plant and equipment | 3 | 6 |
| Insurance compensation | 2 | 12 |
| Gain on divestment of business units | 112 | |
| Other operating income | 6 | 10 |
| | **123** | **28** |

**Reversal of impairment**
The reversals of impairments are related to the sale of assets and closed production facilities.

**Divestment of the interest in CSK Food Enrichment**
On 30 December 2019, FrieslandCampina sold its interest in CSK Food Enrichment, that was part of the business group Dairy Essentials, to Royal DSM. The result on this sale in the amount of EUR 91 million is recognized under gain on divestment of business units.

**Divestment Creamy Creation activities**
On 1 November 2019, FrieslandCampina completed the divestment of the Creamy Creation activities in Rijkevoort (the Netherlands) and the sales office in Paramus (United States) to Wagram Equity partners. The business unit based in Rijkevoort produces and sells cream liqueurs for processing in both alcoholic and non-alcoholic drinks. Creamy Creation achieved a turnover of approximately EUR 55 million in 2018 with 84 employees and was part of business group Ingredients.

The Creamy Creation activities will no longer be consolidated as of November 2019. The results up to the moment of divestment are included in the income statement. The gain on divestment amounts to EUR 21 million and is recorded as gain on divestment of business units.

| | |
|---|---|
| **Fair value of the consideration received** | **52** |
| Assets transferred | -36 |
| Liabilities transferred | 8 |
| Costs related to sale | -3 |
| **Gain on divestment of business** | **21** |

## 6. Finance income and costs

| | 2019 | 2018 |
|---|---|---|
| Finance income | | |
| Interest income | 8 | 7 |
| Foreign exchange gains on receivables and payables | 5 | |
| Other finance income | 4 | 38 |
| | **17** | **45** |
| Finance costs | | |
| Interest expenses | -37 | -34 |
| Foreign exchange losses on receivables and payables | | -11 |
| Other finance costs | -7 | -7 |
| | **-44** | **-52** |

The other finance income consists of the result from hedging derivatives in the amount of EUR 4 million (2018: EUR 8 million).

Interest expenses, among other things, relate to accretion of lease liabilities of EUR 4 million (2018: not applicable).

Other finance costs comprise the amortisation of transaction costs and commitment fees for non-current borrowings of EUR 3 million (2018: EUR 3 million) and accretion and remeasurement of the put option liabilities amounting to EUR 4 million (2018: gain of EUR 26 million).

Foreign exchange results related to operational activities are included in the cost of goods sold or in the appropriate component of operating expenses. In 2019, FrieslandCampina included a positive foreign exchange result in operating profit of EUR 2 million (2018: EUR 16 million positive).

## 7. Income tax expense

| Breakdown of tax expense | 2019 | 2018 |
|---|---|---|
| Current tax expense, current year | -121 | -114 |
| Adjustment for prior years | 1 | -4 |
| **Current tax expense** | **-120** | **-118** |
| | | |
| Deferred tax expense, current year | -2 | 3 |
| Adjustments to deferred taxes, attributable to changes in tax rates | -4 | -1 |
| Write-down of deferred tax assets | -22 | -38 |
| **Deferred tax expense** | **-28** | **-36** |
| **Income tax expense** | **-148** | **-154** |

The write-down of the deferred tax assets is mainly due to insufficient forecasted taxable results in the Netherlands and China to offset the deferred tax assets.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Effective tax rate | Amount | % | Amount | % |
| Profit before tax | 426 | | 357 | |
| | | | | |
| Tax payable on the basis of the Dutch tax rate | -106 | 25.0 | -89 | 25.0 |
| Effect of different tax rates outside The Netherlands | 6 | -1.4 | 6 | -1.7 |
| Effect change in tax rates | -4 | 0.9 | -1 | 0.3 |
| Share of result of joint ventures and associates | 4 | -0.9 | 4 | -1.1 |
| Withholding tax on dividends | -13 | 3.0 | -9 | 2.5 |
| Non-deductible expenses | -13 | 3.0 | -30 | 8.4 |
| Tax-exempt income | -1 | 0.2 | 7 | -2.0 |
| Write-down of deferred tax assets | -22 | 5.1 | -38 | 10.6 |
| Adjustments to estimates relating to prior years | 1 | -0.2 | -4 | 1.1 |
| **Effective tax rate** | **-148** | **34.7** | **-154** | **43.1** |

The effect change in tax rates is mainly related to Pakistan and the Netherlands.

| Income tax recognised directly in equity | | | 2019 |
|---|---|---|---|
| | Before tax | Tax expense/ income | Net of tax |
| Interest Cooperative loan | -8 | 2 | -6 |
| Interest member bonds | -48 | 11 | -37 |
| | **-56** | **13** | **-43** |
| **Income tax recognised in other comprehensive income** | | | |
| Movement cash flow hedge reserve | 14 | -3 | 11 |
| Movement currency translation reserve | 13 | -3 | 10 |
| Movement joint ventures and associates accounted for using the equity method | 3 | | 3 |
| Remeasurement of liabilities (assets) under defined benefit plans | -55 | 13 | -42 |
| | **-25** | **7** | **-18** |

| Income tax recognised directly in equity | | | 2018 |
|---|---|---|---|
| | Before tax | Tax expense/ income | Net of tax |
| Interest Cooperative loan | -9 | 2 | -7 |
| Interest member bonds | -47 | 11 | -36 |
| | **-56** | **13** | **-43** |
| **Income tax recognised in other comprehensive income** | | | |
| Movement currency translation reserve | -65 | -1 | -66 |
| Movement joint ventures and associates accounted for using the equity method | 1 | | 1 |
| Remeasurement of liabilities (assets) under defined benefit plans | 3 | -7 | -4 |
| | **-61** | **-8** | **-69** |

## 8. Property, plant and equipment

| | Land and buildings | Plant and equipment | Other operating assets | Right-of-use assets | Assets under construction | 2019 Total |
|---|---|---|---|---|---|---|
| Cost | 1,691 | 4,131 | 472 | | 445 | **6,739** |
| Accumulated depreciation and impairments | -814 | -2,339 | -304 | | | **-3,457** |
| **Carrying amount at 1 January** | **877** | **1,792** | **168** | | **445** | **3,282** |
| Effect of change in accounting policies | -2 | -1 | -2 | 220 | | **215** |
| **Adjusted carrying amount at 1 January** | **875** | **1,791** | **166** | **220** | **445** | **3,497** |
| Acquired through acquisition | 2 | | | 1 | | **3** |
| Additions | 3 | 12 | 5 | 48 | 345 | **413** |
| Disposals | -2 | -5 | -2 | | | **-9** |
| Currency translation differences | 7 | 11 | 2 | | 2 | **22** |
| Remeasurement | | | | 8 | | **8** |
| Transfers | 65 | 217 | 59 | | -351 | **-10** |
| Transfer to assets held for sale | -8 | -10 | -1 | -1 | -1 | **-21** |
| Depreciation | -66 | -199 | -45 | -61 | | **-371** |
| Impairments | -3 | -15 | -6 | | -6 | **-30** |
| Reversal of impairments | 4 | 2 | 1 | | | **7** |
| **Carrying amount at 31 December** | **877** | **1,804** | **179** | **215** | **434** | **3,509** |
| | | | | | | |
| Cost | 1,749 | 4,247 | 501 | 276 | 438 | **7,211** |
| Accumulated depreciation and impairments | -872 | -2,443 | -322 | -61 | -4 | **-3,702** |
| **Carrying amount at 31 December** | **877** | **1,804** | **179** | **215** | **434** | **3,509** |

For explanation of the movement 'Acquired through acquisition', see Note 2.

The additions of EUR 413 million primarily relate to production capacity expansions and replacement investments in the Netherlands.

Impairments in 2019 primarily relate to assets that are replaced or decommissioned.

The transfer to assets held for sale mainly relates to the sale of the Creamy Creation activities. For a further explanation, see Note 5.

The investments include capitalised borrowing costs amounting to EUR 2 million (2018: EUR 2 million). The applicable average interest rate is 1.3% (2018: 1.5%).

| | | | | | 2018 |
|---|---|---|---|---|---|
| | Land and buildings | Plant and equipment | Other operating assets | Assets under construction | Total |
| Cost | 1,595 | 3,887 | 401 | 564 | **6,447** |
| Accumulated depreciation and impairments | -751 | -2,215 | -273 | | **-3,239** |
| **Carrying amount at 1 January** | **844** | **1,672** | **128** | **564** | **3,208** |
| Acquired through acquisition | 2 | 4 | | | **6** |
| Additions | 2 | 12 | 6 | 388 | **408** |
| Disposals | -1 | -3 | -1 | | **-5** |
| Currency translation differences | -3 | -12 | -1 | | **-16** |
| Transfers | 101 | 318 | 73 | -495 | **-3** |
| Depreciation | -64 | -192 | -37 | | **-293** |
| Impairments | -5 | -14 | | -12 | **-31** |
| Reversal of impairments | 1 | 7 | | | **8** |
| **Carrying amount at 31 December** | **877** | **1,792** | **168** | **445** | **3,282** |
| | | | | | |
| Cost | 1,691 | 4,131 | 472 | 445 | **6,739** |
| Accumulated depreciation and impairments | -814 | -2,339 | -304 | | **-3,457** |
| **Carrying amount at 31 December** | **877** | **1,792** | **168** | **445** | **3,282** |

## Right-of-use assets

The table below gives the book value and depreciation costs per category of the right-of-use assets. Leases in the land and buildings category mainly relate to office buildings and storage locations. Leases in the plant and equipment category mainly relate to production lines, trucks and forklifts. Other operating assets mainly concern car leases.

| | Carrying amount at 31 December | Depreciation current year |
|---|---|---|
| Land and buildings | 132 | 28 |
| Plant and equipment | 50 | 16 |
| Other operating assets | 33 | 17 |
| | **215** | **61** |

## 9. Intangible assets

| | Goodwill | Trademarks, customer relations and patents | Software | Intangible assets under construction | Total |
|---|---|---|---|---|---|
| | | | | | **2019** |
| Cost | 1,322 | 468 | 422 | 47 | **2,259** |
| Accumulated amortisation and impairments | -204 | -113 | -232 | | **-549** |
| **Carrying amount at 1 January** | **1,118** | **355** | **190** | **47** | **1,710** |
| Acquired through acquisition | 3 | | | | **3** |
| Additions | | | | 32 | **32** |
| Currency translation differences | -8 | -9 | | | **-17** |
| Transfers | | | 45 | -35 | **10** |
| Transfers to assets held for sale | -10 | | | | **-10** |
| Amortisation | | -24 | -46 | | **-70** |
| Impairments | | -19 | | -1 | **-20** |
| **Carrying amount at 31 December** | **1,103** | **303** | **189** | **43** | **1,638** |
| | | | | | |
| Cost | 1,307 | 408 | 457 | 44 | **2,216** |
| Accumulated amortisation and impairments | -204 | -105 | -268 | -1 | **-578** |
| **Carrying amount at 31 December** | **1,103** | **303** | **189** | **43** | **1,638** |

The change in goodwill resulting from transfer to assets held for sale relates to the sale of the Creamy Creation activities. For further explanation, see Note 5.

Impairments in 2019 mainly relate to customer relations within business group Specialised Nutrition, due to deteriorated outlook.

In 2010, FrieslandCampina launched a global ICT standardisation programme. During 2019, an amount of EUR 13 million was capitalised (2018: EUR 23 million). The portion that was still under construction at year-end 2019 was recognised in the movements schedule in the category 'Intangible assets under construction'. The amortisation on the ICT standardisation programme in 2019 amounted to EUR 26 million (2018: EUR 29 million).

In 2012, the system was implemented in the first operating companies and subsequently rolled out to a number of other operating companies. The rollout to the remaining operating companies will be completed in 2021.

Amortisation costs of intangible assets were allocated to the items in the income statement on the basis of their function.

| | | | | | 2018 |
|---|---|---|---|---|---|
| | Goodwill | Trademarks, customer relations and patents | Software | Intangible assets under construction | Total |
| Cost | 1,330 | 527 | 310 | 105 | **2,272** |
| Accumulated amortisation and impairments | -204 | -119 | -192 | | **-515** |
| **Carrying amount at 1 January** | **1,126** | **408** | **118** | **105** | **1,757** |
| Acquired through acquisition | 26 | 11 | | | **37** |
| Additions | | | 3 | 51 | **54** |
| Currency translation differences | -34 | -38 | | | **-72** |
| Transfers | | | 112 | -109 | **3** |
| Amortisation | | -26 | -43 | | **-69** |
| **Carrying amount at 31 December** | **1,118** | **355** | **190** | **47** | **1,710** |
| | | | | | |
| Cost | 1,322 | 468 | 422 | 47 | **2,259** |
| Accumulated amortisation and impairments | -204 | -113 | -232 | | **-549** |
| **Carrying amount at 31 December** | **1,118** | **355** | **190** | **47** | **1,710** |

## Goodwill impairment test

FrieslandCampina carries out the goodwill impairment test during the second quarter of each year and whenever there is a trigger for impairment. Goodwill is monitored and tested at business group level. The goodwill impairment test calculates the recoverable amount, which is the value in use, per business group.

The goodwill impairment test was re-conducted at the end of 2019, as a result of a triggering event due to expected lower results in the business group Dairy Essentials.

The table below indicates how the goodwill is allocated to the cash generating units. In addition, the key assumptions used in calculating the value in use per business group are shown:

| | 31 December | | | | | | Assumptions | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | Goodwill | Goodwill | % Growth rate terminal value | % Growth rate terminal value | % Average growth rate gross profit | % Average growth rate gross profit | % Pre-tax discount rate | % Pre-tax discount rate |
| Consumer Dairy | 703 | 716 | 2.5 | 3.0 | 7 | 9 | 9 | 8 |
| Specialised Nutrition | 232 | 227 | 2.5 | 3.0 | 6 | 7 | 7 | 8 |
| Ingredients | 151 | 161 | 1.5 | 2.5 | 5 | 10 | 7 | 8 |
| Dairy Essentials | 17 | 14 | 0.0 | 1.5 | -3 | 3 | 5 | 5 |
| | **1,103** | **1,118** | | | | | | |

The average growth rate of the gross profit for each business group in the long-term plans to 2022 are based on past experience, specific expectations for the near future and market-based growth percentages. The increases were mainly related to the forecasted increase in revenue and efficiency improvements. 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 2020 outlook and the long-term plans until 2022. A compensation is also taken into account for the role that mainly the business group Dairy Essentials plays in processing member milk. This compensation by the other business groups serves to cover the loss on processing member dairy farmers' milk in basic dairy products, mainly realised by the business group Dairy Essentials, as FrieslandCampina is required to process all milk supplied by the member dairy farmers. For the period after 2022, a growth rate equal to the forecasted long-term inflation rates was applied, as is best practice in the market, which is capped at 0% for the Eurozone.

**Sensitivity to changes in assumptions**

The outcome of the goodwill impairment test of all business groups shows that the values in use exceed the carrying amounts. In these cases a reasonable potential change of the assumptions did not result in values in use below the carrying amounts of the business groups.

## 10. Biological assets

The biological assets relates to dairy livestock in Pakistan. On 31 December 2019, FrieslandCampina has 3,391 mature cows, which are able to produce milk (2018: 3,170) and 2,076 immature cows that are being raised to produce milk in the future (2018: 2,580).

## 11. Joint ventures and associates

FrieslandCampina holds interests in a number of joint ventures and associates that individually are not considered to be material. The following table shows, in aggregate, the carrying amount and the share of these joint ventures and associates in the total comprehensive income.

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Joint ventures | Associates | Total | Joint ventures | Associates | Total |
| Carrying amount | 101 | 13 | **114** | 83 | 41 | **124** |
| Share of: | | | | | | |
| • Profit or loss, net of tax | 17 | 4 | **21** | 15 | 7 | **22** |
| • Other comprehensive income | 3 | | **3** | 1 | | **1** |
| **Total comprehensive income** | **20** | **4** | **24** | **16** | **7** | **23** |

The interests in joint ventures and associates specified in the table above are not material for FrieslandCampina in the context of the disclosure requirements of IFRS 12 'Disclosure of interests in other entities'.

The largest joint venture concerns the 50% interest in Betagen Holding Ltd. and this interest is accounted for using the equity method. FrieslandCampina's interest in Betagen Holding Ltd. amounts to EUR 65 million (2018: EUR 65 million), of which EUR 30 million goodwill (2018: EUR 30 million), and the share in the 2019 profit amounts to EUR 11 million (2018: EUR 9 million).

In October 2019 FrieslandCampina acquired a 60% interest in a joint venture with United Dairymen of Arizona for EUR 15 million.

In December 2019 FrieslandCampina sold its interest in the associate CSK Food Enrichment to Royal DSM. For further details, see Note 5.

For a summary of the most important joint ventures and associates, refer to page 159.

## 12. Other financial assets

| | 2019 | 2018 |
|---|---|---|
| Non-current other financial assets | | |
| Loans issued | 11 | 19 |
| Securities | | 1 |
| Derivatives | 17 | 21 |
| Non-current receivables | 6 | 6 |
| | **34** | **47** |
| Current other financial assets | | |
| Derivatives | 30 | 3 |
| Other | 2 | 18 |
| | **32** | **21** |

The average interest rate on the loans issued at the end of 2019 was 5.2% (2018: 4.9%). For EUR 4 million of the loans issued, the maturity date is after 2024.

The provision for expected credit losses relating to other financial assets was not significant at the end of 2019.

For information regarding derivatives, see Note 22. The determination of the fair value of the securities and derivatives is included in Note 27.

## 13. Inventories

| | 2019 | 2018 |
|---|---|---|
| Raw materials and consumables used | 500 | 450 |
| Finished goods and commodities | 1,066 | 980 |
| Write-down to net realisable value | -37 | -64 |
| | **1,529** | **1,366** |

EUR 129 million (2018: EUR 271 million) of the inventories is valued at net realisable value. The write-down to net realisable value is recognised in the cost of goods sold.

No inventories are pledged as collateral for liabilities.

## 14. Trade and other receivables

| | 2019 | 2018 |
|---|---|---|
| Trade receivables | 1,225 | 1,346 |
| Provision for doubtful debts | -20 | -20 |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A. | 49 | 11 |
| Other receivables | 75 | 54 |
| | **1,329** | **1,391** |
| Receivables related to tax (excluding income tax) and social security contributions | 144 | 134 |
| Prepayments | 130 | 111 |
| | **1,603** | **1,636** |
| Provision for doubtful debts | | |
| At 1 January | -20 | -17 |
| Charged to the income statement | -5 | -9 |
| Released to the income statement | 4 | 3 |
| Trade receivables written off | 1 | 3 |
| **At 31 December** | **-20** | **-20** |

### Maturity schedule trade and other receivables

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Gross | Write-down | Net | Gross | Write-down | Net |
| Within payment term | 1,174 | -9 | 1,165 | 1,157 | -4 | 1,153 |
| Overdue by less than 3 months | 151 | -2 | 149 | 228 | -4 | 224 |
| Overdue by 3 - 6 months | 16 | -1 | 15 | 12 | | 12 |
| Overdue by more than 6 months | 8 | -8 | | 14 | -12 | 2 |
| | **1,349** | **-20** | **1,329** | **1,411** | **-20** | **1,391** |

The additions and releases of the provision for doubtful debts have been included in the cost of goods sold. Receivables are written off and charged to the provision when they are not expected to be collected.

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

In various countries, FrieslandCampina has taken out credit insurance to mitigate the credit risk related to trade debtors. At the end of 2019, this insured position amounted to EUR 227 million (2018: EUR 226 million). No trade receivables have been pledged.

## 15. Cash and cash equivalents

| | 2019 | 2018 |
|---|---|---|
| Deposits | 107 | 129 |
| Other cash and cash equivalents | 235 | 227 |
| | **342** | **356** |

Funds of EUR 52 million (2018: EUR 3 million) are not freely available and mainly designated for intercompany supplies in Nigeria. These funds are released once the goods are supplied.

## 16. Assets and liabilities held for sale

| | 2019 | 2018 |
|---|---|---|
| Assets held for sale | | |
| At 1 January | 2 | 4 |
| Transfer from property, plant and equipment | 21 | |
| Transfer from intangible assets | 10 | |
| Transfer from current assets | 15 | |
| Disposals | -41 | -2 |
| **At 31 December** | **7** | **2** |
| | | |
| Liabilities held for sale | | |
| At 1 January | | |
| Transfer from employee benefits | 3 | |
| Transfer from current and non-current liabilities | 5 | |
| Disposals | -8 | |
| **At 31 December** | | |

Assets held for sale at the end of 2019 comprise property, plant and equipment of closed production facilities. During the financial year, assets and liabilities related to the sale of Creamy Creation activities in Rijkevoort (The Netherlands) and the sales office in Paramus (United States) are classified as "held for sale". For further explanation, see Note 5.

The total gain on disposal of assets held for sale amounts to EUR 21 million in 2019 (2018: 2 million) and is recognised in other operating income.

## 17. Equity

**Issued capital**

The number of issued shares at both the beginning and end of the financial year was 3,702,777 shares. EUR 370 million has been paid up 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.

**Member bonds**

The member bonds comprise member bonds-fixed and member bonds-free. Member bonds-fixed cannot be traded. On the termination of business activities and termination of the membership, the member bonds-fixed are automatically converted into member bonds-free. Legal bodies that are members of FrieslandCampina can also convert member bonds-fixed into member bonds-free on the transfer of business between members. Member bonds-free can be held interest-bearing and 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 as at 1 June and 1 December of the relevant year plus 3.25%. 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 member bonds-fixed or in certain cases partly as member bonds-free. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not determined 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 determined or next distributed.

From the profit over the 2019 financial year, EUR 48 million (2018: EUR 47 million) is attributed to the holders of the member bonds as an interest payment. In addition, in 2019 EUR 31 million (2018: EUR 14 million) is attributed to member dairy farmers through the issue of members bonds-fixed and member bonds-free, as part of the compensation for the milk supplied during 2019.

**Cooperative loan**
The EUR 290 million perpetual subordinated loan advanced to Royal FrieslandCampina by Zuivelcoöperatie FrieslandCampina U.A. is continuous and has no maturity date. The interest rate applicable for the perpetual subordinated loan is the six months Euribor as at 1 June and 1 December of the relevant year plus 3.25%. 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 determined or distributed any performance premium in the 12 months prior to the annual interest payment date. Deferred interest becomes payable on the date on which a performance premium is determined or next distributed. The perpetual subordinated loan from the Cooperative is classified as equity.

EUR 8 million of the profit over the 2019 financial year (2018: EUR 9 million) is attributed to the provider of the Cooperative loan as an interest payment.

**Other reserves**
The item 'Other reserves' comprises the cash flow hedge reserve and the currency translation reserve.

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

The currency translation reserve concerns accumulated foreign currency differences arising from the translation of subsidiaries, and foreign currency differences on loans of a permanent nature issued to subsidiaries.

**Retained earnings**
Retained earnings comprise the balance of accumulated profits that have not been distributed to the shareholder and the revaluation of the net pension liability. Pursuant to the Articles of Association, a decision to distribute dividends may be taken if and to the extent that equity exceeds the issued share capital plus the statutory reserves and in accordance with the other legal stipulations.

**Reserve policy**
The 2017-2019 reserve policy stipulates that 55% of the Company's profit based on the guaranteed price, as far as it attributes to the shareholder of the Company, will be added to the retained earnings of the Company. As part of the milk supply allowances in 2019, 35% of this profit can be paid out in cash to member dairy farmers as a performance premium and 10% will be distributed to member dairy farmers in the form of member bonds-fixed or in certain cases partly as member bonds-free. In the event of a goodwill impairment greater than EUR 100 million, it may be decided to add the entire amount to the Company's equity via the profit appropriation. The reserve policy is laid down in the milk price regulation and is revised every three years. After the General Meeting of Shareholders' adoption of the financial statements, the issue of member bonds is finalised. The financial statements are already based on issue of member bonds. The performance premium has also been included in the financial statements and accounted for in cost of goods sold.

Based on the revision of the reservation policy, it has been determined that for the period 2020-2022, 55% of the Company's profit based on the guaranteed price, as far as it attributes to the shareholder of the Company, will be added to the retained earnings of the Company, 35% can be paid as supplementary cash payment to member dairy farmers and 10% will be paid to member dairy farmers in the form of member bonds-fixed, or in certain cases, partly as member bonds-free. In addition, in case of a cumulative bookgain in a certain calendar year above EUR 100 million (for example due to the sale of one or more subsidiaries or the revaluation of an interest in an associate), it may be decided to fully or partially disregard this amount.

**Non-controlling interests**

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

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

The percentages stated in the following table indicate the direct non-controlling interest held by third parties in these entities. For all the entities included in this table, the indirect non-controlling interest is the same as the direct non-controlling interest, with the exception of DMV-Fonterra Excipients GmbH & Co. KG (DFE). 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. In the table above the carrying amounts, total comprehensive income and dividends allocated to non-controlling interests are based on the indirect non-controlling interest.

| | 2019 | | | | | | 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Friesland-Campina WAMCO Nigeria PLC[1] | Friesland-Campina Engro Pakistan Ltd. | DMV-Fonterra Excipients GmbH & Co. KG[1] | Dutch Lady Milk Industries Berhad[1] | Other | **Total** | Friesland-Campina WAMCO Nigeria PLC[1] | Friesland-Campina Engro Pakistan Ltd. | DMV-Fonterra Excipients GmbH & Co. KG[1] | Dutch Lady Milk Industries Berhad[1] | Other | **Total** |
| **Non-controlling interest percentage** | **32.19** | **49.00** | **50.00** | **49.04** | | | **32.19** | **49.00** | **50.00** | **49.04** | | |
| Non-current assets | 66 | 244 | 67 | 27 | | | 66 | 282 | 67 | 27 | | |
| Current assets | 162 | 61 | 80 | 61 | | | 162 | 60 | 80 | 61 | | |
| Non-current liabilities | -11 | -75 | -20 | -1 | | | -11 | -81 | -20 | -1 | | |
| Current liabilities | -167 | -61 | -21 | -65 | | | -167 | -54 | -21 | -65 | | |
| **Net assets** | **50** | **169** | **106** | **22** | | | **50** | **207** | **106** | **22** | | |
| Carrying amount of non-controlling interest | 16 | 83 | 149 | 11 | 98 | **357** | 16 | 101 | 149 | 11 | 66 | **343** |
| Revenue | 348 | 232 | | 215 | | | 348 | 226 | | 215 | | |
| Profit for the year | 28 | -21 | 53 | 27 | | | 28 | | 53 | 27 | | |
| Other comprehensive income | 2 | -17 | | 1 | | | 2 | -42 | | 1 | | |
| **Total comprehensive income** | **30** | **-38** | **53** | **28** | | | **30** | **-42** | **53** | **28** | | |
| Profit allocated to non-controlling interest | 9 | -10 | 28 | 13 | 24 | **64** | 9 | | 28 | 13 | 23 | **73** |
| Other comprehensive income allocated to non-controlling interest | 1 | -8 | | | | **-7** | 1 | -21 | | | 1 | **-19** |
| Dividends paid out to non-controlling interest | -7 | | -19 | -13 | -4 | **-43** | -7 | -1 | -19 | -13 | -23 | **-63** |
| Net cash from/used in operating activities | 49 | 9 | | 26 | | | 49 | 11 | | 26 | | |
| Net cash used in investing activities | -3 | -6 | | -8 | | | -3 | -10 | | -8 | | |
| Net cash used in financing activities | -39 | -2 | | -27 | | | -39 | -3 | | -27 | | |
| **Net cash flows** | **7** | **1** | | **-9** | | | **7** | **-2** | | **-9** | | |

1 As the 2019 results of FrieslandCampina WAMCO Nigeria PLC, DMV-Fonterra Excipients GmbH & Co. KG and Dutch Lady Industries Berhad are not yet publicly available, the 2018 figures have been disclosed. Furthermore, the revenue and cash flows of DMV-Fonterra Excipients GmbH & Co. KG are not publicly available.

## 18. Employee benefits

| Obligations under long-term employee benefits | 2019 | 2018 |
|---|---|---|
| Net pension liability | 438 | 406 |
| Other long-term employee benefits | 20 | 19 |
| | **458** | **425** |

**Other long-term employee benefits**

The other long-term employee benefits mainly consist of jubilee provisions.

**Net pension liability**

***Pension situation Dutch employees covered by the Collective Labour Agreement for the dairy sector***

As of 1 January 2015, all Dutch employees who are covered by the Collective Labour Agreement for the dairy sector accrue their pension benefits 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 EUR 66,406 | Collective defined contribution plan based on a fixed contribution and executed by the industry wide pension fund for the dairy sector ('Bedrijfstakpensioenfonds voor de Zuivel') |
| Between EUR 66,406 and EUR 107,593 | Individual defined contribution plan, administered by a premium pension institution |
| Above EUR 107,593 | Net pension savings plan, administered by the same premium pension institution |

In connection with the pension situation since 1 January 2015, the accrual of pension benefits in the pension plan for former Campina employees, administered in a company pension fund, and the pension plan for former Friesland Foods employees and FrieslandCampina employees hired in the period between 1 January 2009 up to and including 31 December 2014, administered by an insurance company in a segregated investment fund, has ceased. Relating to the plan for former Campina employees, FrieslandCampina currently only has an obligation to settle a number of smaller guarantee contracts pursuant to the administration agreement. Upon reaching agreement on this issue with the pension fund, FrieslandCampina will have a 'settlement of the full plan'. At that moment the present value of the gross obligation pursuant to the pension benefits ('gross pension liability') and the fair value of the plan assets (at the end of 2019 both: EUR 1,557 million) will be released from the net pension liability in the statement of financial position because FrieslandCampina will no longer be exposed to risks. This will not affect the income statement because the current, and at the moment of settlement expected net pension liability (the gross pension liability minus the fair value of plan assets) amounts to nil.

***Pension plan entitlements accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees***

The pension plan entitlements accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees concern a defined benefit plan. At the end of 2019, this plan accounted for 53% of the total gross pension liability (2018: 52%) and is disclosed in more detail below.

| | |
|---|---|
| Plan characteristics | From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants will be annually indexed during the term of the five-year collective labour agreement (until 2020) by a fixed rate of 1.75%, for as long as the employment continues. Conditional indexation is applicable for non-active participants. |
| Pension administrator | An insurance company, in a segregated investment fund via a guarantee contract. |

| | |
|---|---|
| Funding agreements | Each year FrieslandCampina pays in total a premium, calculated based on market value, for the indexation of the pensions of active participants.<br><br>In the four years from 2015 to 2018 FrieslandCampina pays a fixed amount of EUR 16 million per annum into the segregated fund for the indexation of the pensions of non-active participants. From 2019, FrieslandCampina is no longer liable for any further contributions.<br><br>Finally, in respect of the segregated investment fund, if the coverage ratio remains lower than the contractual 110% for longer than 18 consecutive months from the end of the calendar year, FrieslandCampina has the obligation to make good the shortfall. At the end of 2019 the coverage ratio was 119.4% determined on the basis of the principles specified in the insurance contract (2018: 110.4%). |
| Supervision and governance | The insurer is responsible for holding sufficient resources to pay out all accrued benefits. This is supervised by DNB (Dutch National Bank). The investment policy for the insurance contract is determined by the insurer in consultation with FrieslandCampina. |
| Participants | Approximately 47% of the participants are active employees of FrieslandCampina, 34% are former employees and 19% are pensioners. The average duration of the pension obligations is around 19 years. |
| Most significant risks | The most significant risk is that the coverage ratio at the end of the calendar year drops below 110%. If this situation continues for more than 18 consecutive months, FrieslandCampina has the obligation to pay a supplementary premium in order to ensure the funding ratio is restored to 110%. As the pension obligations in the contract are calculated on the basis of a fixed interest rate, the movements in the value of plan assets have a significant impact on the coverage ratio. |

***Pension plan entitlements accrued until 2015 by former Campina employees***

The pension plan entitlements accrued until 2015 by former Campina employees concern a defined benefit plan. At the end of 2019, this plan accounted for 39% (2018: 39%) of the total gross pension liability. During the five year period of the collective labour agreement (until 2020), the pension benefits accrued by active participants up to 2015 will be granted a fixed 1.75% indexation for as long as they remain employed by FrieslandCampina. This 1.75% indexation, which has been insured with an insurance company in a guarantee contract without profit sharing, will be increased with a fixed percentage to cover post-retirement indexation.

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

In addition to the plans disclosed above, the Dutch employees who were employed at the end of 2005 are possibly entitled to a supplementary lump-sum payment, determined on an individual basis, upon retirement from active employment. This conditional lump-sum amount will be awarded in 2021, or on retirement if this is earlier. On the relevant date FrieslandCampina will purchase pension benefits at the rates applicable on that date for these lump-sum amounts. At the end of 2019, this plan accounted for 2% (2018: 3%) of the total gross pension liability.

*Dutch employees covered by the Collective Labour Agreement for 'Het Partikulier Kaaspakhuisbedrijf'*
FrieslandCampina employees who are covered by the Collective Labour Agreement for 'Het Partikulier Kaaspakhuisbedrijf' participate in the industry wide pension plan for the 'Agrarische en Voedselvoorzieningshandel' (AVH). This plan qualifies as a defined contribution plan.

*Foreign employees*
In respect of FrieslandCampina's foreign activities, both defined contribution and defined benefit plans are applicable. The most important defined benefit pension plans are the plans in Germany. These are primarily unfunded pension plans based on salary, length of service and fixed amounts that, at the end of 2019, accounted for 3% (2018: 3%) of FrieslandCampina's total gross pension liability. The accrued benefits are increased each year with a maximum of the price inflation. This is a conditional entitlement depending on the financial position of the relevant company.

*Assumptions*
Due to the large amounts, the table below indicates the assumptions applied in the performance of the calculations for the gross pension liability and its movements, the fair value of plan assets and the relevant components of the pension costs for FrieslandCampina's Dutch pension plans as set out in the consolidated balance sheet and income statement. For the majority of the foreign pension plans, the same method is applied for deriving the discount rate and inflation parameter.

| Assumptions[1] | 2019 | 2018 |
|---|---|---|
| | % | % |
| Discount rate | 0.9 - 1.1 | 1.7 - 1.9 |
| Wage inflation | n.a. | n.a. |
| Price inflation / increase offset | 2.0 | 2.0 |
| Indexation | | |
| • active employees | 1.8 | 1.8 |
| • former employees and pensioners | 1.7 | 1.5 |
| | | |
| Life expectancy | in years | in years |
| • man / woman age 65 at end of year | 20.4 / 23.2 | 20.3 / 23.1 |
| • man / woman age 65 in 20 years' time | 22.8 / 25.4 | 22.7 / 25.3 |

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

1 The percentages shown concern the above-referenced schemes for the pension entitlements of employees in the Netherlands, and represent 92% (2018: 91%) of the gross pension liability and 98% (2018: 98%) of the fair value of plan assets.

| Movement in and specification of net pension liability | Gross pension liability | | Fair value of plan assets | | Net pension liability | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **At 1 January** | **3,637** | **3,917** | **-3,231** | **-3,471** | **406** | **446** |
| **Included in the income statement** | | | | | | |
| Operating expenses: | | | | | | |
| • Current service cost | 13 | 13 | | | 13 | 13 |
| • Interest expense or income | 65 | 74 | -57 | -66 | 8 | 8 |
| • Administration costs | | | 1 | 1 | 1 | 1 |
| **Total** | **78** | **87** | **-56** | **-65** | **22** | **22** |
| **Recognised in equity** | | | | | | |
| Remeasurement gain or loss due to: | | | | | | |
| • Return on plan assets, excluding the interest income and adjusted guaranteed value | | | -525 | 257 | -525 | 257 |
| • Changes in financial assumptions | 573 | -188 | | | 573 | -188 |
| • Changes in demographic assumptions | -9 | -46 | | | -9 | -46 |
| • Experience adjustments | 16 | -27 | | | 16 | -27 |
| **Total remeasurement gain or loss** | **580** | **-261** | **-525** | **257** | **55** | **-4** |
| Currency translation differences | 3 | -1 | -1 | 1 | 2 | |
| **Total** | **583** | **-262** | **-526** | **258** | **57** | **-4** |

| Movement in and specification of net pension liability | Gross pension liability | | Fair value of plan assets | | Net pension liability | |
|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| **Other** | | | | | | |
| Contributions paid by the employer to the plan | | | -44 | -58 | -44 | -58 |
| Benefits paid | -110 | -105 | 110 | 105 | | |
| Transfer to liabilities held for sale | -4 | | 1 | | -3 | |
| **Total** | **-114** | **-105** | **67** | **47** | **-47** | **-58** |
| **At 31 December** | **4,184** | **3,637** | **-3,746** | **-3,231** | **438** | **406** |
| **Classification** | | | | | | |
| • Non-current assets | | | | | 7 | 8 |
| • Non-current liabilities | | | | | 445 | 414 |

At year-end 2019, EUR 240 million of the EUR 4,184 million gross pension liability had not yet been funded (2018: EUR 230 million of the EUR 3,637 million was not yet funded). The contributions to the plans of EUR 44 million are the premiums paid by FrieslandCampina in 2019, of which EUR 16 million relates to 2018.

| Income and expenses under long-term employee benefits recognised in the income statement | 2019 | 2018 |
|---|---|---|
| Current service cost | -13 | -13 |
| Interest expense or income | -8 | -8 |
| Administration costs | -1 | -1 |
| **Defined benefit cost recognised in the income statement** | **-22** | **-22** |
| Benefit cost for defined contribution plans | -89 | -87 |
| Employees' share in pension costs | 10 | 10 |
| **Benefit cost recognised in the income statement** | **-101** | **-99** |
| Expenses under other long-term employee benefits | -2 | -1 |
| **Expenses under long-term employee benefits recognised in the income statement** | **-103** | **-100** |

FrieslandCampina expects to contribute EUR 43 million towards its defined benefit plans in 2020, EUR 15 million of which concerns 2019. In 2020, FrieslandCampina expects to contribute EUR 92 million towards the defined contribution plans, primarily related to the collective and individual defined contribution plans that apply for Dutch employees.

| Disaggregation of the fair value of plan assets into asset categories: | 2019 % | | | 2018 % | | |
|---|---|---|---|---|---|---|
| | Company pension fund | Insurance contract | Foreign pension schemes | Company pension fund | Insurance contract | Foreign pension schemes |
| Shares | | | | | | |
| • North America | 10 | | | 9 | | |
| • Europe | 4 | | | 4 | | |
| • Japan | 2 | | | 2 | | |
| • Emerging Markets | 2 | | | 2 | | |
| • Other | 1 | | | 1 | | |
| Fixed income securities | | | | | | |
| • Investment grade (BBB rating or higher) | 20 | | | 20 | | |
| • Non-investment grade (BB rating or lower) | 3 | | | 4 | | |
| Other investments | | | 2 | | | 2 |
| Guaranteed value of insurance contract | | 56 | | | 56 | |
| **Total** | **42** | **56** | **2** | **42** | **56** | **2** |

At year-end 2019, the plan assets in the company pension fund and the guaranteed value of the insurance contract amounted to 42% and 56% of the total plan assets respectively (2018: 42% and 56%). Of the plan assets in the company pension fund approximately EUR 15 million is invested in subordinated bonds of Zuivelcoöperatie FrieslandCampina U.A. Of the interest rate risk relating to the company pension fund, 59% is hedged. Of the hedged amount, at the end of 2019 54% is hedged by means of government bonds (currency risk is largely hedged) and 46% by means of interest rate swaps. The collateral of the swap portfolio is invested in a widely spread cash fund with an AAA rating. The currency risk related to the main part of the 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 64% of these investments are fixed-income securities, 28% are shares and 8% are other investments. Because the insurer determines the pension obligation at a fixed interest rate, the interest rate hedge is limited. The remaining plan assets compromising 2% of the total amount (2018: 2%) are related to foreign pension plans and largely consist of insurance contracts.

*Sensitivity analysis*

The table below shows the impact of a change in key actuarial assumptions on the gross pension liability in respect of the Dutch pension plans.

| **Effect on the gross pension liability at 31 December** | **2019** | | **2018** | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| Change of 0.25% to discount rate | -171 | 183 | -148 | 158 |
| Change of 0.25% to indexation of former participants | 149 | -141 | 125 | -118 |
| Change of 1 year to life expectancy | 176 | -173 | 138 | -137 |

As a result of cross effects, changes in multiple assumptions could lead to different effects than the sum of the individual effects. In addition, the impact on the net pension liability is usually less 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.

## 19. Deferred tax assets and liabilities

| | | | | | | **2019** |
|---|---|---|---|---|---|---|
| | Property, plant and equipment | Intangible assets | Employee benefits | Inventories, trade receivables, derivatives, trade payables, liabilities and provisions | Unused tax losses and facilities | **Total** |
| At 1 January | -59 | -9 | 53 | 87 | 28 | **100** |
| Effect of change in accounting policies | -55 | | | 55 | | |
| Adjusted position at 1 January | -114 | -9 | 53 | 142 | 28 | **100** |
| Recognised through the income statement | -1 | -8 | -3 | 1 | -17 | **-28** |
| Recognised in equity | | | 13 | -6 | 13 | **20** |
| Currency translation differences | | 2 | | 2 | | **4** |
| **At 31 December** | **-115** | **-15** | **63** | **139** | **24** | **96** |

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

| | Assets | Liabilities | Net |
|---|---|---|---|
| Property, plant and equipment | 1 | 116 | **-115** |
| Intangible assets | 77 | 92 | **-15** |
| Employee benefits | 66 | 3 | **63** |
| Inventories, trade receivables, derivatives, accounts payable, liabilities and provisions | 146 | 7 | **139** |
| Unused tax losses and facilities | 24 | | **24** |
| Netting | -112 | -112 | |
| **Net deferred tax asset** | **202** | **106** | **96** |

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

| | Assets | Liabilities | Net |
|---|---|---|---|
| Property, plant and equipment | 2 | 61 | **-59** |
| Intangible assets | 83 | 92 | **-9** |
| Employee benefits | 56 | 3 | **53** |
| Inventories, trade receivables, derivatives, accounts payable and provisions | 93 | 6 | **87** |
| Unused tax losses and facilities | 28 | | **28** |
| Netting | -33 | -33 | |
| **Net deferred tax asset** | **229** | **129** | **100** |

## Deferred tax assets and liabilities

| 2018 | 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 | -67 | -15 | 71 | 88 | 43 | **120** |
| Acquired from acquisition | | -1 | | | | **-1** |
| Recognised through the income statement | 5 | -3 | -11 | | -27 | **-36** |
| Recognised in equity | | | -7 | -1 | 13 | **5** |
| Currency translation differences | 3 | 10 | | | -1 | **12** |
| **At 31 December** | **-59** | **-9** | **53** | **87** | **28** | **100** |

At the end of the financial year, the unused tax losses and facilities amounted to EUR 24 million (2018: EUR 28 million) of which EUR 16 million (2018: EUR 21 million) concerned unused tax losses and EUR 8 million (2018: EUR 7 million) concerned unused facilities. Based on long-term planning, it is expected that it will be possible to offset these against future profits.

Deferred tax assets are recognised if it is 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:

| | 2019 | 2018 |
|---|---|---|
| Unrecognised tax losses | 121 | 115 |
| Unrecognised facilities | 86 | 73 |
| | **207** | **188** |

At the end of the financial year, the nominal value of the unused tax losses amounts to EUR 473 million (2018: EUR 449 million). Of these unrecognised tax losses, EUR 174 million expire within 10 years (2018: EUR 151 million). The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules.

## 20. Provisions

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | Restructuring | Other provisions | **Total** | Restructuring | Other provisions | **Total** |
| At 1 January | 58 | 42 | **100** | 62 | 14 | **76** |
| Additions charged to the income statement | 16 | 9 | **25** | 32 | 34 | **66** |
| Release to the income statement | -4 | -29 | **-33** | -4 | -5 | **-9** |
| Utilisations | -44 | -2 | **-46** | -32 | -1 | **-33** |
| **At 31 December** | **26** | **20** | **46** | **58** | **42** | **100** |
| | | | | | | |
| Non-current provisions | 7 | 7 | **14** | 8 | 6 | **14** |
| Current provisions | 19 | 13 | **32** | 50 | 36 | **86** |
| | **26** | **20** | **46** | **58** | **42** | **100** |

**Restructuring provisions**
The utilisations in 2019 are primarily related to provisions for the production sites in France and Germany and FrieslandCampina's organisational transformation programme.

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**
From time to time, FrieslandCampina is involved in legal and arbitration proceedings arising in the ordinary course of business. FrieslandCampina was involved in an investigation by a national competition authorities for which a provision has been released in 2019. Due to the nature of the legal proceedings the timing of utilisation of these provisions is uncertain.

## 21. Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

| | Year of maturity | % Nominal interest rate | 2019 | Carrying amount | 2018 | Carrying amount |
|---|---|---|---|---|---|---|
| Syndicate (variable interest) | 2019-2020 | 0.4 | 10 | | 20 | |
| European Investment Bank (fixed interest) | 2019-2026 | 0.8 | 146 | | 150 | |
| International Finance Corporation (variable interest) | 2019-2026 | 3.1 | 77 | | 87 | |
| Other borrowings from credit institutions | | | 52 | | 62 | |
| **Borrowings from credit institutions** | | | | **285** | | **319** |
| Private Placement (fixed interest) | 2020 | 5.7 | 118 | | 116 | |
| Private Placement (fixed interest) | 2022 | 4.0 | 71 | | 70 | |
| Private Placement (fixed interest) | 2024 | 4.2 | 130 | | 127 | |
| Private Placement (fixed interest) | 2019-2027 | 4.0 | 146 | | 160 | |
| **Borrowings from institutional investors** | | | | **465** | | **473** |
| Green bonds (fixed interest) | 2021-2026 | 1.4 | 300 | | 300 | |
| **Borrowings from holders of green bonds** | | | | **300** | | **300** |
| Euro commercial paper (variable interest) | 2019-2019 | -0.3 | 275 | | 290 | |
| Other uncommitted facilities (variable interest) | 2019-2020 | | | | 100 | |
| **Uncommitted facilities** | | | | **275** | | **390** |
| Fonterra Finance Corporation Ltd. (variable interest) | 2019-2025 | | | | 13 | |
| Borrowings from member dairy farmers (variable interest) | 2019-2020 | 0.3 | 18 | | 22 | |
| Bank overdrafts (variable interest) | 2019-2020 | 1.3 | 64 | | 132 | |
| Lease liabilities (fixed interest) | 2019-2037 | 1.4 | 211 | | 4 | |
| Capitalised issue costs | 2019-2027 | | -3 | | -4 | |
| Other interest-bearing borrowings | | | 2 | | 2 | |
| **Other** | | | | **292** | | **169** |
| **Interest-bearing borrowings** | | | | **1,617** | | **1,651** |
| | | | | | | |
| Recognised under non-current interest-bearing borrowings | | | | 1,038 | | 1,035 |
| Recognised under current interest-bearing borrowings | | | | 579 | | 616 |

The nominal value of the interest-bearing borrowings does not deviate from the carrying value. The average interest paid on the interest-bearing borrowings, including the effect of the cross currency swaps at year-end 2019, is 2.0% (2018: 1.9%).

Of the lease liabilities, EUR 157 million is classified as non-current and EUR 54 million is classified as current.

No guarantees were provided for the short-term and long-term loans.

**Borrowings from credit institutions**
In the second half of 2017, FrieslandCampina adjusted the credit facility, negotiated with a syndicate of credit institutions, on the basis of more favourable conditions due to the issue of a public credit rating, whereby the facility was reduced to EUR 1 billion with a 5-year term. In the second half of 2018, FrieslandCampina exercised the first option of extending this facility to October 2023. In the second half of 2019, FrieslandCampina exercised the second option of extending this facility to October 2024. At 31 December 2019, EUR 10 million of the credit facility is utilised (2018: EUR 20 million) and is entirely classified as current.

In 2016 FrieslandCampina agreed a loan facility capped at EUR 150 million with the European Investment Bank (EIB). This loan is being used for research into and development of new products. As per June 2018, the entire amount of EUR 150 million was drawn down from this loan. After repayments during this financial year, the outstanding amount is EUR 146 million (2018: EUR 150 million). The loan consists of three parts with fixed interest rates. The terms range from 3 to 10 years. An amount of EUR 143 million of the loans is recorded under the non-current interest-bearing borrowings and an amount of EUR 3 million is classified as current. The issue costs of the loans are capitalised and are amortised over the term of the loans.

In 2016 FrieslandCampina has negotiated a loan with International Finance Corporation (IFC) for USD 100 million in support of the acquisition of a 51% interest in FrieslandCampina Engro Pakistan Ltd. In this financial year the first repayments were made for an amount of USD 13 million. An amount of EUR 12 million of the loan with IFC was classified as current at the end of December 2019.

The USD repayments and interest payment obligations to IFC have been converted to EUR borrowings with a fixed interest rate (also see Note 22). The costs resulting from the revaluation of the loan to euro of EUR 3 million in 2019 (2018: EUR 4 million expense) has been fully offset by the hedge.

**Borrowings from institutional investors (Private Placements)**
FrieslandCampina has taken out privately placed loans with institutional investors in the United States to a total of USD 522 million (2018: USD 543 million). In 2019, EUR 16 million was repaid (2018: EUR 16 million).

On 31 December 2019, the total amount of borrowings from institutional investors (private placements) classified as non-current amounts to EUR 329 million (2018: EUR 455 million) and an amount of EUR 136 million (2018: EUR 18 million) is classified as current.

The USD repayments and interest payment obligations associated with the private placement obligations were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps, see Note 22. The costs resulting from the revaluation of the loan to euro of EUR 9 million in 2019 (2018: EUR 20 million expense) has been fully offset by the hedge.

**Borrowings from holders of green bonds**
FrieslandCampina issued green bonds (Green Schuldschein) amounting to EUR 300 million (2018: EUR 300 million), consisting of four tranches at fixed interest rates. The terms vary between 5 and 10 years. These bonds are recognised in the non-current interest-bearing borrowings; issue costs are capitalised and amortised over the duration of the bonds.

**Uncommitted facilities**
In 2017, FrieslandCampina established a Euro Commercial Paper Programme (ECP). The maximum term of the paper issued is 12 months. At year-end 2019, the drawings under the ECP Programme amounted to EUR 275 million (2018: EUR 290 million). At year-end 2019, no amount was drawn down from other uncommitted facilities (2018: EUR 100 million).

**Borrowings from member dairy farmers**
The borrowings from member dairy farmers amounting to EUR 18 million (2018: EUR 22 million) concern three year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers against the payment of a 0.25% interest penalty.

## 22. Other financial liabilities

| | 2019 | 2018 |
|---|---|---|
| Non-current other financial liabilities | | |
| Derivatives | 3 | 10 |
| Contingent considerations | 2 | 4 |
| Put option liabilities | 54 | 50 |
| Other | 3 | 3 |
| | **62** | **67** |
| Current other financial liabilities | | |
| Derivatives | 4 | 4 |
| Contingent considerations | 3 | 3 |
| | **7** | **7** |

The long-term put option liability relates to the co-financing of the acquisition of a 51% interest in FrieslandCampina Engro Pakistan Ltd. For a further explanation, see Note 27.

**Derivatives**
In the statement of financial position the hedging derivatives are recognised in current and non-current other financial assets and other financial liabilities. An explanation of FrieslandCampina's goal, course of action and policy regarding the use of derivatives and other financial instruments is included in Note 27.

### Hedging activities

| | | | | 2019 |
|---|---|---|---|---|
| | Maturity date | Assets | Liabilities | Contract volume at year-end |
| Cross currency swaps | 2020 | 26 | 1 | 122 |
| Cross currency swaps | after 2020 | 16 | 3 | 360 |
| **Total cash flow hedges subject to hedge accounting** | | **42** | **4** | |
| Interest rate swaps | 2020-2023 | 1 | | 400 |
| Forward exchange contracts | 2020 | 4 | 3 | 590 |
| **Derivatives not subject to hedge accounting** | | **5** | **3** | |
| **Total derivatives** | | **47** | **7** | |
| Classified as current | | 30 | 4 | |
| Classified as non-current | | 17 | 3 | |

| Hedging activities | | | | 2018 |
|---|---|---|---|---|
| | Maturity date | Assets | Liabilities | Contract volume at year-end |
| Cross currency swaps | 2019 | | 1 | 29 |
| Cross currency swaps | after 2019 | 21 | 9 | 481 |
| **Total cash flow hedges subject to hedge accounting** | | **21** | **10** | |
| Interest rate swaps | 2019-2022 | | 2 | 250 |
| Forward exchange contracts | 2019 | 3 | 2 | 342 |
| Commodity swaps | 2019 | | | 2 |
| **Derivatives not subject to hedge accounting** | | **3** | **4** | |
| **Total derivatives** | | **24** | **14** | |
| Classified as current | | 3 | 4 | |
| Classified as non-current | | 21 | 10 | |

**Cash flow hedges**

The USD repayments and interest payment obligations associated with the private placement obligations and the IFC obligations totalling USD 522 million (2018: USD 543 million) and USD 87 million (2018: USD 100 million) were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps. The cross currency swaps were negotiated to hedge the cash flows and are subject to cash flow hedge accounting. The cross currency swaps are measured at fair value. The portion of the profit or loss realised on these hedge instruments that qualifies as an effective hedge is recognised directly in equity. The private placement obligations were fixed at EUR 401 million and the IFC obligations were fixed at EUR 81 million on the basis of the above-referenced swaps.

For the above-referenced hedges, to which hedge accounting is applied, the hedge accounting documentation requirements are met in accordance with IFRS 9 and effectiveness tests are conducted in advance and on every reporting date to confirm that there is an economic relationship between the derivative and the hedged item. The characteristics of the cross currency swap, such as instalments, interest rates and maturity date are matched with the loan at the start of the hedging relationship.

No significant ineffectiveness in the cashflow hedges occurred in 2019. As of year-end 2019 a cash flow hedge-reserve of EUR -14 million (2018: EUR -25 million) was recognised as part of equity.

The effects of the cashflow hedges on FrieslandCampina's financial position are as follows:

| Cross currency swaps | 2019 | 2018 |
|---|---|---|
| Carrying amount | 38 | 11 |
| Contractual amount | 482 | 510 |
| Maturity date | 2020-2027 | 2019-2027 |
| Hedge ratio | 1:1 | 1:1 |
| Changes in value of outstanding hedging instruments for the purpose of determining the hedge effectiveness | -12 | -32 |
| Changes in value of hedged items for the purpose of determining the hedge effectiveness | 16 | 35 |
| Weighted average interest | 3.7% | 3.7% |

**Derivatives not subject to hedge accounting**

Derivatives not subject to hedge accounting have been contracted primarily to hedge currency risks related to anticipated sales and purchases, loans and outstanding receivables and payables. The movements in the value of the receivables and payables are largely being offset with movements in the value of derivatives.

The interest rate swaps are entered into to convert the variable interest-bearing borrowings of EUR 400 million (2018: EUR 250 million) into fixed interest-bearing borrowings.
Also, derivatives were entered into to hedge part of the price risk on future purchases and sales of milk powder and butter. For a further explanation, see Note 27.

FrieslandCampina's policy is and was throughout the financial year, that no trading takes place for speculative purposes.

## 23. Trade and other payables

| | 2019 | 2018 |
|---|---|---|
| Borrowings from member dairy farmers | 493 | 442 |
| Trade payables | 1,508 | 1,531 |
| Payables related to tax (excluding income tax) and social security contributions | 98 | 49 |
| Other payables | 779 | 720 |
| | **2,878** | **2,742** |

As part of other payables, contract liabilities of EUR 4 million (2018: EUR 3 million) are primarily related to deferred income.

## 24. Commitments and contingencies

**Purchase commitments fixed assets**
At the end of the financial year, purchase commitments amounting to EUR 83 million (2018: EUR 118 million) were reported, with regard to property, plant and equipment. Of this, EUR 74 million (2018: EUR 112 million) relates to commitments for the next year.

**Operational lease commitments**
At the end of 2018, operational lease commitments for in total EUR 237 million were reported as off-balance commitments. As of 1 January 2019, these commitments are recognized in the balance sheet.

**Tax risks**

Transfer pricing uncertainties
FrieslandCampina has issued internal guidelines regarding 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 consequence, local tax authorities often focus on the impact of transfer pricing on the local result. To reduce transfer pricing risks FrieslandCampina has implemented monitoring procedures to safeguard the correct application of the transfer pricing policies. In certain countries, FrieslandCampina has proactively approached the tax authorities with the aim of seeking alignment of the applied transfer pricing policies.

Acquisitions, partnering & divestments
FrieslandCampina is involved in mergers and acquisitions ('M&A' transactions) whereby shares or assets are acquired or divested, or whereby partnerships are entered into. 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 risks arising from the integration of the acquired activities.
Within FrieslandCampina, M&A transactions are managed by M&A teams comprising representatives from all the relevant disciplines, including tax specialists. Uncertainties regarding the tax position resulting from M&A transactions are therefore investigated and risks are mitigated if required and to the extent possible.

**Contingent liabilities**

Commitments related to the merger

Zuivelcoöperatie FrieslandCampina U.A. is required to pay member dairy farmers who terminate their membership a lump-sum leave fee of EUR 5.00 per 100 kilograms of milk delivered in the year prior to the year in which the application for eligibility for the lump-sum leave fee is made. The eligibility requirement for the lump-sum leave fee is that the member dairy farmer must become a supplier to another purchaser of raw milk in the Netherlands. The commitment will remain in force until member dairy farmers with a total milk volume of 1.2 billion kilograms have left FrieslandCampina (year-end 2019: 0.5 billion).

Bank guarantees

At 31 December 2019, FrieslandCampina has provided bank guarantees to third parties amounting to a total of EUR 17 million (2018: EUR 17 million).

Contingent tax liabilities

FrieslandCampina is involved in various tax proceedings that have emerged during normal operations. In many countries, there is a high degree of complexity concerning local tax regimes. FrieslandCampina regularly carefully evaluates the probability that a tax proceeding will result in a tax liability in the form of a cash outflow, and/or whether it is necessary to recognise a provision. However, it is difficult to predict the outcome of tax proceedings with any certainty and the outcome from a tax proceeding may differ from FrieslandCampina's estimate.

FrieslandCampina estimates the contingent tax liabilities as at 31 December 2019, that are being investigated by tax authorities, at a total of EUR 54 million (2018: EUR 58 million), of which the largest part relates to the treatment of sales tax in Pakistan.

Legal claims

Various claims were submitted to Royal FrieslandCampina N.V and/or its subsidiaries relating to the Company's ordinary operations. A provision is made for claims for which payment is considered probable and for which a reliable estimate can be made, see Note 20. FrieslandCampina does not expect the other claims to result in liabilities that have a material impact on its financial position.

**Contingent assets**

As part of the sale of the fruit juices and fruit drinks activities in the Netherlands and Belgium, FrieslandCampina has agreed on a contingent asset from the buyer. This contingent asset is in part dependent on the future developments in the results of the divested activities. In view of the uncertainty concerning the amount and the timing of any payment, currently no value has been assigned to this contingent asset.

## 25. Transactions with related parties

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

See Note 26 for the remuneration of the Supervisory Board and the Executive Board.

**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 2019, this was 10.0 billion kilograms (2018: 10.4 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 56 billion kilograms of milk in total.

Pursuant to the reserve policy, an interim payment was made on the basis of the Company's results for the first half of the year and the quantity of milk supplied. The interim payout amounts to 75% of the pro forma performance premium for the value of the quantity of milk supplied during the first half of the year. The final settlement will take place in March 2020 based on the Company's results for the financial year and the total quantity of milk supplied. See Note 17 for a description of the reserve policy.

As disclosed in detail in Note 17, to finance the assets of Royal FrieslandCampina N.V. Zuivelcoöperatie FrieslandCampina U.A. has provided a perpetual subordinated loan of EUR 290 million at arm's length.

The relations are specified in the table below:

| | 2019 | 2018 |
|---|---|---|
| Interest on the Cooperative loan | 8 | 9 |
| Interest on member bonds | 5 | 5 |
| Other income | 8 | 8 |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A. | 49 | 11 |
| Cooperative loan | 295 | 295 |
| Member bonds | 160 | 171 |

**Joint ventures and associates**

FrieslandCampina regularly purchases and sells goods from and/or to joint ventures and associates in which FrieslandCampina has no control. 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:

| | 2019 | 2018 |
|---|---|---|
| Joint ventures | | |
| • Purchase of raw materials, consumables used and commodities | 38 | 35 |
| • Sale of raw materials, consumables used and commodities | 3 | 3 |
| • Receivables from joint ventures | | 3 |
| • Payables to joint ventures | 2 | 2 |
| Associates | | |
| • Purchase of raw materials, consumables used and commodities | 46 | 52 |
| • Sale of raw materials, consumables used and commodities | 85 | 80 |
| • Receivables from associates | 7 | 11 |
| • Payables to associates | 3 | 5 |

**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:

| | 2019 | 2018 |
|---|---|---|
| Purchase of raw materials | 3,871 | 3,933 |
| Interest on member bonds | 43 | 42 |
| Member bonds | 1,482 | 1,440 |
| Borrowings from member dairy farmers | 511 | 464 |

**Supervisory Board and Executive Board**

The members of the Supervisory Board who are also a member of the Cooperative's Board enter into transactions with FrieslandCampina in their capacity as dairy farmers, including the supply of milk. This results in a liability as at 31 December pursuant to milk supply allowances. These Supervisory Board members are also holders of member bonds. The table below sets out the transactions of the member dairy farmers who were a Supervisory Board member during 2019 and the balance sheet positions with the members who were a Supervisory Board member as at 31 December 2019:

| | 2019 | 2018 |
|---|---|---|
| Purchase of raw materials | 5 | 4 |
| Member bonds | 3 | 2 |

There were no transactions in 2019 between FrieslandCampina and the Executive Board, other than remuneration. See Note 26 for the remuneration of the Supervisory Board and the Executive Board.

## 26. Remuneration of the Supervisory Board and the Executive Board

The remuneration of the Supervisory Board and the Executive Board consists of the remuneration of members during the reporting year.

| | 2019 | 2018 |
|---|---|---|
| **Supervisory Board** | | |
| Short-term remuneration | 1.1 | 1.1 |
| | **1.1** | **1.1** |
| **Executive board** | | |
| Short-term remuneration | 2.1 | 1.7 |
| Long-term remuneration | 0.7 | 0.7 |
| Pension plans | 0.2 | 0.2 |
| | **3.0** | **2.6** |

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

Please refer to the paragraph 'Covenant Guidelines' for the quantitative notes with respect to the financial ratios that are monitored.

**Active risk management**

The increased volatility of foreign exchange markets, the significant decline in economic growth in emerging markets and problems in the Eurozone (e.g. the consequences of Brexit) can have a material impact on the future results of FrieslandCampina in various ways.

FrieslandCampina pursues an active risk management policy. This includes scenario planning and measures to address any issues. Based on a continuous business process of monitoring and risk analyses, the business plans of all FrieslandCampina operating companies are adjusted where necessary and maintained on the basis of a focused package of risk-mitigating measures.

**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 a 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 closely monitors the market risks relative to all financial instruments, mainly currency risks and interest rate risks.

FrieslandCampina also enters into derivative transactions, primarily forward exchange contracts and interest rate swaps, in order to manage the currency risks and interest rate risks arising from FrieslandCampina's operations and the financing of its operations. Commodity futures were also entered into to control the price risks of future purchases and sales of milk powder and butter, and commodity swaps for changes in the diesel and bunker oil prices for road and sea transport ensuing from FrieslandCampina's activities in the Netherlands, Belgium and Germany. FrieslandCampina's policy is, and was 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.

**Netting of financial instruments**
FrieslandCampina has various financial assets and financial liabilities that are subject to offsetting or netting agreements.

FrieslandCampina has implemented multiple cash pool systems that facilitate a more efficient management of the daily working capital requirements of the participating entities. The netting mechanisms of these cash pools are managed by an external financial institution, whereby daily clearance was implemented partially in 2018, as a result of which no difference exists anymore between the gross outstanding amount and the net outstanding amount at the financial institution. At year-end 2019, EUR 196 million (2018: EUR 1,537 million) of the gross outstanding amount was still reported on a net basis in the financial statements.

Derivative transaction are carried out by FrieslandCampina on the basis of standard agreements according to the International Swaps and Derivatives Association (ISDA). In general, the amounts outstanding on a daily basis can be aggregated in the same currency, resulting in a net amount. In certain circumstances, for example when an event such as a default occurs, all outstanding transactions under the agreement may be terminated, the termination value is assessed and a net amount must be paid upon settlement of the transactions. At year-end FrieslandCampina has netted a not significant amount based on ISDA settlement agreements.

**Currency risks**
As FrieslandCampina operates 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. In principle, transaction risks are hedged. The amount of hedged positions may vary due to specific product and market conditions.

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

**Exposure to 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 stated in EUR):

| | | | | | 2019 |
|---|---|---|---|---|---|
| | EUR/USD | EUR/CNY | NGN/USD | IDR/USD | EUR/HKD |
| Receivables | 252 | 86 | 16 | 29 | 8 |
| Cash and cash equivalents | 3 | | 5 | 2 | |
| Liabilities | 142 | 42 | 2 | 44 | 3 |
| **Net statement of financial position** | **113** | **44** | **19** | **-13** | **5** |
| Forward exchange contracts | 44 | 93 | -31 | | 33 |
| **Net exposure 31 December** | **69** | **-49** | **50** | **-13** | **-28** |
| **Sensitivity analysis** | | | | | |
| Impact on profit before tax | 3 | -2 | 3 | -1 | -1 |

| | | | | | 2018 |
|---|---|---|---|---|---|
| | EUR/USD | EUR/CNY | NGN/USD | IDR/USD | EUR/HKD |
| Receivables | 183 | 47 | 1 | | 55 |
| Cash and cash equivalents | 4 | | 2 | | |
| Liabilities | 149 | 35 | 70 | 24 | |
| **Net statement of financial position** | **38** | **12** | **-67** | **-24** | **55** |
| Forward exchange contracts | -33 | 49 | -15 | | 41 |
| **Net exposure 31 December** | **71** | **-37** | **-52** | **-24** | **14** |
| **Sensitivity analysis** | | | | | |
| Impact on profit before tax | 4 | -2 | -3 | -1 | 1 |

Sensitivity analysis

FrieslandCampina is primarily sensitive to fluctuations in the US dollar exchange rate due to its sales and purchases in dollars. The largest currency pairs are EUR/USD, EUR/CNY, NGN/USD, IDR/USD and EUR/HKD. As far as the euro is concerned, this relates mainly to sales in US dollars and Chinese yuan. For the other currencies this mainly relates to the purchase of raw materials on the world market.

The table above illustrates the impact of a 5% change in the specified currency (USD, CNY and HKD) in relation to the local currency (EUR, NGN and IDR) on the profit before tax. A 5% change in exchange rate is considered a realistic possibility. 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 would not 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 treasury policy specifies that the percentage characterised by a fixed interest rate, or that is fixed by means of a hedge, varies with a bandwidth of 40%-80% with a minimum time horizon of at least three full calendar years.

The percentage which is characterised by a fixed interest percentage or is fixed by means of a hedge is at 31 December 2019 100% (2018: 78%), higher than usual due to incidental gains on disposal. The overview below shows the situation at the end of the year:

| Interest on borrowings | 2019 | | 2018 | |
|---|---|---|---|---|
| | Carrying amount excluding hedging | Carrying amount including hedging | Carrying amount excluding hedging | Carrying amount including hedging |
| Fixed rate | 1,142 | 1,617 | 950 | 1,287 |
| Variable rate | 475 | | 701 | 364 |
| | **1,617** | **1,617** | **1,651** | **1,651** |

FrieslandCampina carried out a sensitivity analysis based on the impact 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 charges for the current year would not have been significantly 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, which is also maintained as a backup for short-term debt securities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities totaling EUR 2,009 million (2018: EUR 2,011 million). Of these facilities EUR 990 million (2018: EUR 980 million) was unused at the end of 2019, which is substantially more than the minimum credit headroom of EUR 350 million required according to FrieslandCampina's financial policy.

**Cash flows on financial liabilities**
The table below gives an overview of the maturity dates of the financial liabilities of contractual nominal payments including related interest liabilities. This table does not show derivatives recognised under the current and non-current other financial assets. For derivatives recognised under the other financial liabilities the table shows both the incoming and outgoing contractual cash flows.

| Non-derivative financial liabilities | | | | | 2019 |
|---|---|---|---|---|---|
| | Carrying amount | **Contractual cash flows** | 2020 | 2021 - 2024 | After 2024 |
| Interest-bearing borrowings | 1,406 | **-1,499** | -588 | -696 | -215 |
| Lease liabilities | 211 | **-221** | -55 | -123 | -43 |
| Trade and other payables | 2,878 | **-2,878** | -2,878 | | |
| Put option liabilities | 54 | **-54** | | | -54 |
| Contingent considerations | 5 | **-5** | -3 | -2 | |
| **Derivates** | | | | | |
| Cross currency swaps - inflow | 4 | **79** | 14 | 65 | |
| Cross currency swaps - outflow | | **-82** | -13 | -69 | |
| Forward exchange - inflow | 3 | **378** | 378 | | |
| Forward exchange - outflow | | **-382** | -382 | | |
| | **4,561** | **-4,664** | **-3,527** | **-825** | **-312** |

| Non-derivative financial liabilities | | | | | 2018 |
|---|---|---|---|---|---|
| | Carrying amount | Contractual cash flows | 2019 | 2020 - 2023 | After 2023 |
| Interest-bearing borrowings | 1,647 | **-1,772** | -633 | -695 | -444 |
| Financial lease liabilities | 4 | **-4** | -1 | -2 | -1 |
| Trade and other payables | 2,742 | **-2,742** | -2,742 | | |
| Put option liabilities | 50 | **-50** | | | -50 |
| Contingent considerations | 7 | **-7** | -3 | -4 | |
| **Derivates** | | | | | |
| Interest rate swaps | 2 | **-2** | -2 | | |
| Cross currency swaps - inflow | 10 | **319** | 32 | 137 | 150 |
| Cross currency swaps - outflow | | **-328** | -29 | -143 | -156 |
| Forward exchange - inflow | 2 | **166** | 166 | | |
| Forward exchange - outflow | | **-169** | -169 | | |
| | **4,464** | **-4,589** | **-3,381** | **-707** | **-501** |

**Credit Risk**

FrieslandCampina is exposed to credit risk in respect of 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 risk mitigating measures have been 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 2% (2018: 2%) of revenue). The total write-offs of trade receivables amount to less than 0.1% of annual revenue. For further information regarding trade receivables, see Note 14.

Whenever possible, cash and cash equivalents have been deposited with first class international banks, in example those with at least a 'single A' credit rating. Over recent years, the credit rating of banks has declined across the board. Cash and cash equivalents held by subsidiaries in relatively unstable political climates are, however, subject to local country risks. To minimise these risks, FrieslandCampina follows an active dividend policy in relation to these subsidiaries. Many countries in which FrieslandCampina operates, in particular emerging markets, have a credit rating far lower than 'single A'. As a result, local banks in these countries have a correspondingly low credit rating, or no credit rating. For example, FrieslandCampina has substantial cash positions in Nigeria and to mitigate this higher credit risk, not only has an active dividend policy but also a stringent bank policy with maximum limits per bank. Derivatives are in principle traded with financial institutions with good credit ratings, i.e. at least 'investment grade' (credit rating BBB or higher). Whenever possible, FrieslandCampina strives for offsetting in accordance with the ISDA agreements. 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:

| Credit rating financial institution | 2019 | | 2018 | |
|---|---|---|---|---|
| | Cash positions | Contract volume derivatives | Cash positions | Contract volume derivatives |
| AA | 5 | 78 | 7 | 127 |
| A | 236 | 1,163 | 264 | 924 |
| BBB | 16 | 201 | 16 | 34 |
| < BBB | 26 | 22 | 45 | 13 |
| No rating | 59 | 8 | 24 | 6 |
| | **342** | **1,472** | **356** | **1,104** |

**Covenant guidelines**

| Existing guidelines for financial ratios: | |
|---|---|
| • Net Debt / EBITDA | < 3.5 |
| • EBITDA / Net Interest | > 3.5 |

The conditions of all facilities were met. If the conditions are not met, the amounts stated under the credit facility, green bonds, the European Investment Bank, International Finance Corporation and the Private Placements are callable.

The table below sets out the specification of the net debt at year-end, in accordance with the covenant guidelines the impact of IFRS 16 has been disregarded:

| | 2019 | 2018 |
|---|---|---|
| Non-current interest-bearing borrowings | 881 | 1,035 |
| Current interest-bearing borrowings | 525 | 616 |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A. | -49 | -11 |
| Cash and cash equivalents | -342 | -356 |
| Cash and cash equivalents not freely available | 52 | 3 |
| **Net debt** | **1,067** | **1,287** |

**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.

| Cross currency swaps | | | | | 2019 |
|---|---|---|---|---|---|
| | Fair value | Expected cash flows | 2020 | 2021 - 2024 | After 2024 |
| Assets | 42 | **43** | 29 | 15 | -1 |
| Liabilities | -4 | **-4** | 1 | -5 | |

| | | | | | 2018 |
|---|---|---|---|---|---|
| | Fair value | Expected cash flows | 2019 | 2020 - 2023 | After 2023 |
| Assets | 21 | **22** | 3 | 21 | -2 |
| Liabilities | 10 | **-9** | 3 | -6 | -6 |

**Accounting classifications and fair values**

The carrying value of the financial assets and liabilities recorded in the consolidated balance sheet 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 levels of input data for the determination of the fair value are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: input other than quoted market prices that come under Level 1 that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3: input related to the asset or liability that is not based on observable market data (unobservable input) whereby this input has a significant impact on the outcome.

| | Note | Fair value - hedge accounting instruments | Mandatorily at FVTPL | Financial assets at amortised cost | Other financial liabilities | **Total carrying amount** | Level 1 | Level 2 | Level 3 | **Total fair value** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | **2019** |
| **Financial assets not measured at fair value** | | | | | | | | | | |
| Loans issued - fixed rate | (12) | | | 11 | | **11** | | 11 | | **11** |
| Loans issued - variable rate | (12) | | | 2 | | **2** | | | | |
| Non-current receivables | (12) | | | 6 | | **6** | | | | |
| Trade and other receivables | (14) | | | 1,603 | | **1,603** | | | | |
| Cash and cash equivalents | (15) | | | 342 | | **342** | | | | |
| | | | | **1,964** | | **1,964** | | | | |
| **Financial assets measured at fair value** | | | | | | | | | | |
| Hedging derivatives | (22) | 42 | 5 | | | **47** | | 47 | | **47** |
| | | **42** | **5** | | | **47** | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | | |
| Interest-bearing borrowings - fixed rate | (21) | | | | 1,142 | **1,142** | | 1,193 | | **1,193** |
| Interest-bearing borrowings - variable rate | (21) | | | | 475 | **475** | | 477 | | **477** |
| Other non-current financial liabilities | (22) | | | | 3 | **3** | | | | |
| Trade and other payables | (23) | | | | 2,878 | **2,878** | | | | |
| | | | | | **4,498** | **4,498** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | | |
| Hedging derivatives | (22) | 4 | 3 | | | **7** | | 7 | | **7** |
| Put option liabilities | (22) | | 54 | | | **54** | | | 54 | **54** |
| Contingent considerations | (22) | | 5 | | | **5** | | | 5 | **5** |
| | | **4** | **62** | | | **66** | | | | |

| | Note | Fair value - hedge accounting instruments | Mandatorily at FVTPL | Available-for-sale | Financial assets at amortised cost | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | Total fair value |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | 2018 |
| **Financial assets not measured at fair value** | | | | | | | | | | | |
| Loans issued - fixed rate | (12) | | | | 33 | | **33** | | 33 | | **33** |
| Loans issued - variable rate | (12) | | | | 4 | | **4** | | | | |
| Non-current receivables | (12) | | | | 6 | | **6** | | | | |
| Trade and other receivables | (14) | | | | 1,636 | | **1,636** | | | | |
| Cash and cash equivalents | (15) | | | | 356 | | **356** | | | | |
| | | | | | **2,035** | | **2,035** | | | | |
| **Financial assets measured at fair value** | | | | | | | | | | | |
| Hedging derivatives | (22) | 21 | 3 | | | | **24** | | 24 | | **24** |
| Securities | (12) | | | 1 | | | **1** | | | 1 | **1** |
| | | **21** | **3** | **1** | | | **25** | | | | |
| **Financial liabilities not measured at fair value** | | | | | | | | | | | |
| Interest-bearing borrowings - fixed rate | (21) | | | | | 949 | **949** | | 970 | | **970** |
| Interest-bearing borrowings - variable rate | (21) | | | | | 702 | **702** | | 704 | | **704** |
| Other non-current financial liabilities | (22) | | | | | 3 | **3** | | | | |
| Trade and other payables | (23) | | | | | 2,742 | **2,742** | | | | |
| | | | | | | **4,396** | **4,396** | | | | |
| **Financial liabilities measured at fair value** | | | | | | | | | | | |
| Hedging derivatives | (22) | 10 | 4 | | | | **14** | | 14 | | **14** |
| Put option liabilities | (22) | | 50 | | | | **50** | | | 50 | **50** |
| Contingent considerations | (22) | | 7 | | | | **7** | | | 7 | **7** |
| | | **10** | **61** | | | | **71** | | | | |

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 1.2% (2018: 2.3%) is used. The fair value of the loans provided with a fixed interest rate is determined using an average interest rate of 2.5% (2018: 4.8%).

### Securities

FrieslandCampina holds some interests in non-listed companies. These interests are classified as other financial assets. The fair value of these interests is derived from the equity value of the third parties. This measurement method is classified as Level 3.

### Hedging derivatives

The hedging derivatives are classified as Level 2 valuation method. The fair value of the forward exchange contracts is calculated by comparison with the current forward prices of contracts for comparable remaining terms. The fair value of interest rate swaps is determined on the basis of the present value based on current market data provided by Bloomberg. The fair value of the commodity swaps is based on the statement of the market-to-market valuations of the relevant counterparties based on the EEX quotations.

### Put option liabilities

FrieslandCampina issued a put option to IFC and the Netherlands Development Finance Company (FMO) with respect to the shares held in the Dutch legal entity holding 51% of the shares in FrieslandCampina Engro Pakistan Ltd. The fair value of the put option is determined based on the present value of the expected exercise price on the expected exercise date. The exercise price is primarily dependent on the profit of FrieslandCampina Engro Pakistan Ltd. before interest, taxes, depreciation and amortisation. The shares are subdivided into type A and type B shares, whereby a cap and floor has been agreed upon in relation to the return of type A shares. The put option on type A shares can first be exercised at the beginning of 2022, the put option on type B shares first at the beginning of 2024. Due to the sensitivity to the results of FrieslandCampina Engro Pakistan Ltd., the measurement method for this liability has been classified as Level 3.

At year-end 2019, as a consequence of the upward adjusted forecasts of the results of FrieslandCampina Engro Pakistan Ltd., a remeasurement of the put option liability was performed resulting in a dotation of EUR 2 million (2018: release EUR 29 million). This dotation is recognised under other finance costs.

If the forecasted profit before interest, taxes, depreciation and amortisation of FrieslandCampina Engro Pakistan Ltd. would have been 10% higher, then FrieslandCampina's profit over 2019 would have been EUR 1 million lower due to the remeasurement of the put option liability.

**Movements and transfers**

During 2019, movements of the financial instruments classified as Level 3 were as follows:

| | | | 2019 |
|---|---|---|---|
| | Contingent considerations | Put option liabilities | Securities |
| Carrying amount at 1 January | 7 | 50 | 1 |
| Redemptions | -2 | | |
| Finance costs | | 2 | |
| Fair value adjustment | | 2 | -1 |
| **Carrying amount at 31 December** | **5** | **54** | |

| | | | 2018 |
|---|---|---|---|
| | Contingent considerations | Put option liabilities | Securities |
| Carrying amount at 1 January | | 76 | 1 |
| Acquired through acquisition | 7 | | |
| Finance costs | | 3 | |
| Fair value adjustment | | -29 | |
| **Carrying amount at 31 December** | **7** | **50** | **1** |

There were no transfers from or to levels 1, 2 or 3 during 2019.

## 28. Specification of external auditor's fees

| | | | 2019 |
|---|---|---|---|
| | PricewaterhouseCoopers Accountants N.V. | Other PwC network | **Total PwC network** |
| Audit of the financial statements | 1.5 | 1.4 | **2.9** |
| Other audit engagements | 0.2 | 0.1 | **0.3** |
| | **1.7** | **1.5** | **3.2** |

| | | | 2018 |
|---|---|---|---|
| | PricewaterhouseCoopers Accountants N.V. | Other PwC network | **Total PwC network** |
| Audit of the financial statements | 1.4 | 1.5 | **2.9** |
| Other audit engagements | 0.2 | 0.1 | **0.3** |
| | **1.6** | **1.6** | **3.2** |

## 29. Subsequent events

On 16 January 2020, Royal FrieslandCampina N.V. repaid member bonds held by Rabobank as liquidity provider for an amount of EUR 42 million, in order to create room in the internal market for member bonds-free. Due to the repayment of member bonds-free, the equity has been reduced.

## 30. Significant accounting policies

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

### Basis of Consolidation

#### Business combinations

Business combinations are accounted for by 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 of the entity.

FrieslandCampina measures goodwill at the acquisition date as:

1. the fair value of the consideration transferred; plus
2. the recognised amount of any non-controlling interests in the acquiree; plus
3. if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
4. 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 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. The interest accrued on and the adjustments made to the fair value as a result of changes to the interest accrual period are reported under finance income and costs. Adjustments to the fair value as a result of other changes are reported under other operating costs and income.

The put option liabilities relating to non-controlling interests are classified as a liability, rather than a non-controlling interest, in both the balance sheet and the income statement. The interest accrued on the put option liabilities, any dividends paid to holders of the put option and adjustments to the fair value are recorded under finance income and costs. The put option liabilities are recognised under other financial liabilities.

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 equity transactions (transactions with owners in their capacity as owners). Adjustments to non-controlling interests whereby control is retained 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 over which FrieslandCampina has control. 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 no control, over the financial and operating policies. Joint ventures are the entities in which FrieslandCampina has joint control and 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.

After initial recognition, the consolidated financial statements include FrieslandCampina's share of the results and the other comprehensive income of the participations from the date on which FrieslandCampina first has significant influence up to the date on which it last has significant influence or joint control. Dividends received or receivable from associates and joint ventures are recognized as a reduction in the carrying amount of the investment.

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 intercompany 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 158.

**Foreign currency translation**

### Foreign currency transactions

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

Non-monetary balance sheet items valued at historical cost in foreign currencies are translated at the exchange rates on the date of the initial transaction. Non-monetary items valued at fair value in foreign currencies are translated using the exchange rates 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;
- a financial liability designated as a hedge of the net investment in a foreign operation;
- qualifying cash flow hedges to the extent the criteria for hedge accounting are met.

These differences are recognised in equity via other comprehensive income.

### Foreign operations

Assets and liabilities of foreign subsidiaries are translated at the exchange rates on the reporting 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 subsidiary that is not owned by FrieslandCampina for 100%, the relevant proportion of the translation difference is allocated to non-controlling interests.

When control, significant influence or joint control in a foreign operation is lost due to a (partial) disposal, 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 arising through the translation of a receivable or liability that is classified as a net investment in a foreign activity are recognised in other comprehensive income and accounted for in the currency translation differences reserve in equity. When 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:

| | 2019 | |
|---|---|---|
| | At year-end | Average |
| US dollar | 1.12 | 1.12 |
| Chinese yuan | 7.81 | 7.73 |
| Philippine peso | 56.81 | 58.00 |
| Hong Kong dollar | 8.73 | 8.77 |
| Indonesian rupiah (10,000) | 1.56 | 1.58 |
| Malaysian ringgit | 4.59 | 4.64 |
| Nigerian naira (100) | 4.09 | 4.05 |
| Pakistan rupee | 173.69 | 167.74 |
| Russian rouble | 69.54 | 72.42 |
| Singapore dollar | 1.51 | 1.53 |
| Thai baht | 33.35 | 34.76 |
| Vietnamese dong (10,000) | 2.60 | 2.60 |

| | 2018 | |
|---|---|---|
| | At year-end | Average |
| US dollar | 1.15 | 1.18 |
| Chinese yuan | 7.87 | 7.81 |
| Philippine peso | 60.05 | 62.21 |
| Hong Kong dollar | 8.98 | 9.25 |
| Indonesian rupiah (10,000) | 1.64 | 1.68 |
| Malaysian ringgit | 4.73 | 4.76 |
| Nigerian naira (100) | 4.17 | 4.27 |
| Pakistan roupee | 159.15 | 143.24 |
| Russian rouble | 79.49 | 74.02 |
| Singapore dollar | 1.56 | 1.59 |
| Thai baht | 37.08 | 38.15 |
| Vietnamese dong (10,000) | 2.66 | 2.72 |

**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 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 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 the liability simultaneously.

The classification of loans, receivables and deposits is dependent on the business model for managing the assets and the contractually cash flows. When the contractual cash flows represent solely payments of principal and interest on the principal amount outstanding, and when in the business model the assets are held to collect, the loans, receivables and deposits are classified at amortised cost. Otherwise, loans, receivables and deposits are classified as fair value through other comprehensive income or as fair value through profit or loss.

The classification of securities is dependent on an irrevocable decision by FrieslandCampina to classify the instrument on initial recognition as a fair value instrument with value changes recognised in total comprehensive income or as a fair value instrument with value changes recognised in the income statement.

Fair values for disclosure purposes, are calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

*Financial assets measured at fair value through other comprehensive income*
On initial recognition these assets are stated at fair value plus any directly attributable transaction costs. After initial recognition, the assets are stated at fair value with changes in fair value through other comprehensive income and accumulated in the fair value reserve. Any dividends are recognised in the income statement as finance income. If these assets are no longer recognised, the profits and losses accumulated in the fair value reserve are transferred to retained earnings.

The fair value of securities, for a non-listed entity, is determined by making use of data that is not based on observable market data.

*Financial assets measured at fair value through profit or loss*
A financial asset is classified as stated at fair value with any changes in fair value recognised in the income statement if it is classified as such on initial recognition or if the financial asset is reclassified as a financial asset held for sale. Directly attributable transaction costs are recognised as an expense in the income statement when they are incurred. Financial assets measured at fair value through profit or loss are measured at fair value and any changes in that fair value are recognised in the income statement.

*Financial assets at amortised cost*
Loans granted, long-term receivables, trade receivables and other receivables and deposits are financial instruments with fixed or determinable payments that are not listed on an active market.

On initial recognition such assets are stated at fair value plus any directly attributable transaction costs.

After initial recognition, the loans and receivables are stated at amortised cost in accordance with the effective interest method, less any impairments.

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

## Non-derivative financial liabilities

The initial recognition of financial liabilities (including liabilities designated as fair value through profit and loss) is stated at transaction date. The transaction date is the date on which FrieslandCampina commits to the contractual provisions of the instrument.

The fair value, determined for the purpose of the notes, of the liabilities is determined on the basis of the discounted cash flows.

FrieslandCampina no longer recognises a financial liability in the balance sheet as soon as the performance pursuant to the relevant liability was completed, expired or released.

Financial liabilities other than derivatives consist of interest-bearing borrowings, other financial liabilities, trade payables and other liabilities. On initial recognition, such financial liabilities are stated at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are stated at amortised cost in accordance with the effective interest method.

*Lease liabilities*
The interest-bearing borrowings include lease liabilities. At initial recognition, lease liabilities are measured at the present value of future lease payments. Lease payments consist of:

- fixed payments, including in substance fixed payments, minus contractual lease incentives;
- the exercise price of a purchase option when it is reasonably certain that FrieslandCampina will exercise this option;
- the payment of a penalty when it is reasonably certain that FrieslandCampina will terminate the lease early;
- payments that fall within the period of an extension option when it is reasonably certain that FrieslandCampina will exercise this option;
- payments that fall within the period of which it is reasonably certain that FrieslandCampina will make use of the asset, for contracts for which a contractual end-date has not been agreed upon.

When an estimate in respect of the lease payments changes, including changes in remaining lease payments based on an index or rate, the lease liability is remeasured taking into account these changes, whereby the right-of-use asset is also remeasured.

Lease payments are discounted on the basis of the implicit interest rate of the lease. When the implicit interest rate cannot be derived, the lease payments are discounted on the basis of the incremental borrowing rate that reflects the interest rate at which FrieslandCampina could have obtained a loan to finance a similar asset in the same economic environment for the same duration and with the same collateral.

The lease liability is reduced by the lease payments, and the interest accrued on the lease liabilities is recognised as part of finance costs in the income statement.

### Derivatives (including derivatives for which hedge accounting is applied)

FrieslandCampina holds derivatives to hedge its foreign currency risk, cash flow risks and interest rate risk exposure.

Derivatives are recognised initially at fair value where direct 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. When measuring derivatives, the credit risk arising from adjustments to the fair value for the credit risk of the counterparty (Credit Valuation Adjustment (CVA)) and the Company's credit risk (Debit Valuation Adjustment (DVA)) are taken into account.

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 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.

The fair value of the commodity swaps is generally based on the market values issued by the brokers.

*Derivatives for which hedge accounting is applied*

FrieslandCampina applies cash flow hedge accounting on a portion of its foreign currency and interest rate derivatives.

*Assessment of the hedging relationship's effectiveness*

On initial designation of the derivative as a hedging instrument, FrieslandCampina formally documents the relationship between the hedging instrument(s) and the hedged item(s), including its 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 hedging relationship and on each subsequent reporting date, FrieslandCampina assesses whether the hedging instruments during the period for which the hedge was designated are expected to meet the hedge accounting criteria.

The hedging relationship can result in ineffectiveness when:

- Changes in value of the hedging instrument do not match the changes in value of the hedged item due to for example the credit risk of the counterparty (CVA), the Company's credit risk (DVA) or the currency spread basis in the derivative;
- Deviations between the characteristics of the hedging instrument and the hedged item.

Applying for a cash flow hedge for an anticipated transaction requires that it is highly probable that the transaction will take place and that this transaction would result in an exposure to the fluctuation of cash flows of such significance that these ultimately could affect the reported profit or loss.

*Cash flow hedges*

When a derivative is designated as the hedging instrument for the variability in cash flows resulting from a particular risk associated with a recognised asset, liability, or highly probable anticipated transaction that could affect the income statement, then the effective portion of changes in the fair value of the derivative is included in the consolidated statement of 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, terminated or exercised, then hedge accounting is terminated from the date of the most recent assessment of effectiveness. If the forecasted transaction is no longer expected to occur, the balance in equity is reclassified to the income statement.

*Derivatives without application of hedge accounting*
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 share 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

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-constructed assets comprises:
- costs of materials and direct labour costs;
- any other costs directly attributable to making the asset ready for use;
- costs directly attributable in obtaining right-of-use assets;
- 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 includes right-of-use assets. At the commencement date of the lease, the leased asset is measured at the present value of the lease liability.

Until 31 December 2018, payments related to operational leases were recognized in the income statement on a straight-line basis over the term of the lease. Leases without a transfer of significant risks of ownership were classified as operational leases.

If parts of property, plant and equipment have different useful lives, the parts are accounted for as separate components of property, plant and equipment. Any gain or loss on the disposal 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.

### Acquisition of property, plant and equipment resulting from a business combination

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 based on negotiations wherein the parties had each acted knowledgeably. The fair value of land, buildings 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 costs reflect adjustments for physical deterioration as well as functional and economic obsolescence.

### Costs after initial recognition

Costs after initial recognition 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

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.

Property, plant and equipment are depreciated from the date that they are installed and are ready for use.

Right-of-Use assets are depreciated from the commencement date of the lease agreement.

The estimated useful lives for the current year of significant 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 investees that are not being consolidated, the carrying amount of goodwill is included in the carrying amount of the joint venture or associate and any impairment loss is allocated to the carrying amount of the joint venture or associate 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 or 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.

### Acquisition of intangible assets resulting from a business combination

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.

### Costs after initial recognition

Costs after initial recognition 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 life for the current year for the main categories of intangible assets is as follows:

| | |
|---|---|
| Trademarks and patents | 10-40 years |
| Customer relations | 5-20 years |
| Software | 5-7 years |
| Other intangible assets | 5-20 years |
| Capitalised internal development costs | 5-7 years |

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

## Biological assets

The dairy livestock is valued at fair value less the cost to sell. The fair value of the livestock is determined by an independent valuer based on the best available estimates for livestock with similar characteristics.

Profit or loss resulting from changes to the fair value less the cost to sell is recognised in the income statement.

## 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.

### Acquisition of inventories resulting from a business combination

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 plus a reasonable profit margin based on the effort required to complete and sell the inventories.

## Impairments

### Non-derivative financial assets

*Impairment of financial assets*

The impairment of financial assets is based on the estimated risk of non-payment and the expected loss ratios. To be able to determine these values, FrieslandCampina makes use of projections that are based on past history, existing market conditions and future conditions. These values are determined each year at the end of the financial year.
The following assets fall under the 'Expected Credit Loss Model':

- Loans granted at amortised cost;
- Trade receivables and other receivables;
- Non-current receivables.

*Loans granted at amortised cost and non-current receivables*

In case of a low credit risk, a provision is made on the basis of the expected credit losses over the coming 12 months. In case of a significant increase in credit risk, a provision is made on the basis of the life time expected credit losses. FrieslandCampina determines the impairment of loans granted at amortised cost on an annual basis. A low credit risk is assumed in case there were no defaults of payment in the past and the counterparty has sufficient funds at its disposal to meet the contractual payment obligations.

*Trade receivables and other receivables*
In determining the provision for bad debts and other receivables, FrieslandCampina uses the simplified method for applying the 'Expected Credit Loss Model'. The 'expected credit loss' on trade receivables and other receivables is determined at origination of the financial asset for the total expected lifetime of the receivable. The trade receivables and other receivables are grouped on the basis of credit risk and aging. The amount of the provision is determined for each group on the basis of historical payment behaviour information. In addition, due consideration is given to current developments that could affect the credit risk of an individual position, such as significant payment difficulties of a debtor or group of debtors, indications that a debtor may be unable to meet his payment obligations or may file for bankruptcy, the disappearance of an active market that may bring about, or observable data indicating, a 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 balance sheet date causes the amount of impairment loss to decrease, this decrease is reversed through the income statement.

### Non-financial assets
The carrying amounts of FrieslandCampina's non-financial assets, other than biological assets, inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any trigger for impairment. If such a trigger 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 exceeds its recoverable amount.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs of disposal. 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 cash generating unit.

The value in use is determined on the basis of the budget, the long-term plans and the subsequent use, with due consideration to the role of the asset or the division in the milk processing. For the goodwill impairment test, compensation is made between the business group Dairy Essentials (up until 2017: Cheese, Butter & Milkpowder) and the other business groups for the role which the business group Dairy Essentials (up until 2017: Cheese, Butter & Milkpowder) fulfills in the milk processing.

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 cash generating units. Cash generating units to which goodwill is allocated are aggregated for the purpose of impairment testing so that the level at which impairment testing is performed reflects the lowest level within FrieslandCampina at which goodwill is monitored for the purpose of internal reporting. Goodwill acquired in a business combination is allocated to the FrieslandCampina cash generating units expected to benefit from the synergies of that combination.

Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the entity 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**

Non current assets (or groups of assets and liabilities that will be disposed of), whose carrying amount is expected to be recovered primarily via a sale transaction rather than through continuing use, are classified as held for sale or distribution. Immediately before being classified as such, the assets (or the components of a group of assets that will be disposed of) are remeasured in accordance with FrieslandCampina's accounting policies. Thereafter, the assets (or a group of assets and liabilities that will be disposed of) are generally measured at their carrying amount, or if this is lower, their fair value less selling costs. An impairment on a disposal group is first allocated to goodwill and then on a pro rata basis to the remaining assets and liabilities, except that no impairment is allocated to biological assets, inventories, financial assets, deferred tax assets or employee related provisions, which continue to be measured in accordance with FrieslandCampina's accounting policies. Impairment losses arising from the initial classification as held for sale or distribution and gains or losses from subsequent remeasurement are recognised through the income statement. If the gain from subsequent remeasurement exceeds the cumulative impairment loss, this difference is not included.

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

In addition, for investments recognised in accordance with the equity method, this measurement method is no longer applied once these investments are classified as held for sale or distribution.

**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 placed by FrieslandCampina with an industry-wide pension plan 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 liability (or asset) in respect of defined benefit plans is 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 term of the pension obligations.

The net present value per pension plan is recognised in the balance sheet as a pension liability, or as a pension asset, under employee benefits.

Remeasurement of the net pension liability (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 in the other comprehensive income.

If the calculation of the net pension liability per pension plan 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 (or gains) resulting from the defined benefit plan by multiplying the net pension liability (or asset) with the discount rate used to measure the defined pension plan at the start of the year. Changes in the net pension liability (or asset) during the year as a result of benefits being paid out are taken into account. The net interest expenses (or 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 the income statement at the time an adjustment occurs or at the moment a restructuring provision is formed.

### Other long-term employee benefits

Frieslandcampina's other long-term employee benefits liability concerns the present value of the benefits accrued by employees during the periods in which related services are provided by employees. Remeasurements are recognised in the income statement in the period in which they occur.

### 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 in the statement of financial position 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 affected employees 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 an impairment loss on the assets associated with the contract.

**Net revenue**

Revenue from the sale of goods is recognised based on the transaction price of the received or receivable payment. The transaction price is determined taking into account returns, trade discounts and volume rebates. Revenue is recognised in the income statement when persuasive evidence exists of settlement of the contractual performance obligation by transfer of the goods to the customer. Persuasive evidence usually exists in the form of an executed sales agreement. Settlement of the performance obligation has persuasively occurred when control over the goods has been transferred to the customer, associated costs and possible return of goods can then be estimated reliably and there is no continuing control over or involvement with the goods.

Discounts are recognised as a reduction of revenues when they will probably be granted and the discount amount can be measured reliable. When discounts will granted over past performance obligations, a provision is recognised in the balance sheet. In case a discount will be granted over future performance obligations, a contract liability will be recognised.

**Cost of goods sold**

Cost of goods sold primarily comprises the purchase of goods (including milk from the member dairy farmers and other raw materials and consumables), production costs (including personnel costs, depreciation and impairments of production facilities) and related transport and logistics costs.

Cost of raw materials, consumables used and commodities that are a component of cost of goods sold are determined according to the first-in-first-out principle. The costs include the currency translation differences on trade receivables and payables as well as differences in the measurement of related derivatives.

**Advertising and promotion costs**
Advertising and promotion costs mainly comprise expenditure for marketing and consumer campaigns.

**Selling, general and administrative costs**
Selling, general and administrative costs comprise mainly the costs of the sales organisation, outbound transport costs, research and development costs, general costs and administrative costs.

**Other operating costs and income**
Other operating costs and income consist of costs and income that, according to the management, are not the direct result of normal business operations and/or that are so significant in terms of nature and size that they must be considered separately for a proper analysis of the underlying result.

**Government grants**
Government grants are recognised at fair value when there is reasonable assurance that the grants will be received and all related conditions will be complied with. When a grant relates to an expense item it is systematically deducted from the costs incurred over the period that are necessary to match the grant 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.

**Leases**
Lease costs for short-term leases, leases of low-value assets and the variable portion of lease payments are recognised in the income statement in the period to which the cost pertains. Short-term leases have a term of less than 12 months. The variable portion of the lease payments is dependent on the use of the asset.

Up to and including 31 December 2018, lease costs in respect of operational leases were recognised in the income statement on a straight line basis over the term of the lease. Lease incentives received to conclude leasing agreements were recognised as an integral part of the total lease costs in the income statement over the term of the lease.

Up to and including 31 December 2018, the minimum lease payments in respect of a financial lease were partly recognised as finance costs and partly as depreciation of the asset. The outstanding lease liability was reduced with the lease payments. The finance costs were allocated to each period of the total lease term such that this resulted in a constant regular interest rate over the remaining balance of the liability.

**Finance income and 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, with due consideration to impairments.

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 on the transaction date does not affect accounting or 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 if 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 to settle current tax liabilities and assets on a net basis or realise 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.

**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.

**Segmentation**
The identified operating segments concern the separate components within FrieslandCampina for which financial information is available that is frequently evaluated by the Executive Board in order to take decisions concerning the allocation of available resources to the segment and to assess the segment's performance.

FrieslandCampina has subdivided the operating segments by business group: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. Pricing within a segment is determined on a business-like, objective basis. The segmented results, assets and liabilities comprise items that are directly attributable to a segment and that can also be attributed on a reasonable basis. Unallocated items primarily consist of jointly used assets and liabilities, joint costs, the performance premium and the issue of member bonds.

# Subsidiaries, joint ventures and associates[1]

## Principal subsidiaries

**The Netherlands**
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 Nutrifeed B.V., Amersfoort
FrieslandCampina Pakistan Holding B.V., Amersfoort (81.69%)
Zijerveld en Veldhuyzen B.V., Bodegraven

**Belgium**
FrieslandCampina Belgium N.V., Aalter
FrieslandCampina Belgium Cheese N.V., Aalter
FrieslandCampina C.V.B.A., Aalter (99.84%)
Yoko Cheese N.V., Genk (99.89%)

**Germany**
CMG Grundstücksverwaltungs- und Beteiligungs GmbH, Heilbronn (89.56%)
DMV-Fonterra Excipients GmbH & Co. KG, Goch (50%)[2]
FKS Frischkonzept Service GmbH, Viersen
FrieslandCampina Cheese GmbH, Essen
FrieslandCampina Germany GmbH, Heilbronn (94.90%)
FrieslandCampina Kievit GmbH, Lippstadt
Milchverwaltung FrieslandCampina Germany GmbH, Keulen

**France**
FrieslandCampina Cheese France S.A.S., Sénas
FrieslandCampina France S.A.S., Saint-Paul-en-Jarez

**Greece**
FrieslandCampina Hellas S.A., Athens

**Hungary**
FrieslandCampina Hungária zRt, Budapest (99.99%)

**Italy**
FrieslandCampina Italy Srl, Verona

**Romania**
FrieslandCampina Romania S.A., Satu Mare (97.58%)

**Russia**
Campina LLC, Moscow
FrieslandCampina RU LLC, Moscow

**Spain**
FrieslandCampina Canarias S.A., Las Palmas
FrieslandCampina Iberia S.L., Barcelona
Millán Vicente S.L., Zaragoza

**United Kingdom**
FrieslandCampina UK Ltd., Horsham

**China**
FrieslandCampina Dairy Co. Ltd., Shenyang
FrieslandCampina Branding Management (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Ingredients (Beijing) Co. Ltd., Beijing
FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai

**Hong Kong**
FrieslandCampina (Hong Kong) Ltd., Hong Kong

**Philippines**
Alaska Milk Corporation, Makati City (99.86%)

**Indonesia**
PT Frisian Flag Indonesia, Jakarta (95%)
PT Kievit Indonesia, Jakarta

**Malaysia**
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)

**Pakistan**
FrieslandCampina Engro Pakistan Ltd., Karachi (51%)

**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**
FrieslandCampina Saudi Arabia Ltd., Jeddah (75%)

**United Arab Emirates**
FrieslandCampina Middle East DMCC, Dubai

**Egypt**
FrieslandCampina Egypt Consulting and Trading S.A.E., Cairo

**Ghana**
FrieslandCampina West Africa Ltd., Accra

**Ivory Coast**
FrieslandCampina Ivory Coast S.A., Abidjan

**Nigeria**
FrieslandCampina WAMCO Nigeria PLC, Ikeja (67.81%)

**United States**
FrieslandCampina Ingredients North America Inc., Paramus, New Jersey
Jana Foods LLC., Iselin, New Jersey
Best Cheese Corporation, Purchase, New York

## Joint ventures and associates[3]

Betagen Holding Ltd., Hong Kong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, the Netherlands (49.90%)
Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)
United Dutch Arizona Dairy Inc., Tempe, State: Arizona, United States (60%)

1 Unless where stated otherwise, it concerns a 100% interest. If the percentage is below 100%, the direct interest of the parent company in the relevant subsidiary is stated.

2 In diesen Gesellschaften hat FrieslandCampina einen beherrschenden Einfluss. Durch die Einbeziehung in den Konzernabschluss der Royal FrieslandCampina N.V. hat die DMV Fonterra Excipients GmbH & Co. KG als vollkonsolidiertes verbundenes Unternehmen von den Erleichterungen des § 264b HGB Gebrauch gemacht.

3 FrieslandCampina does not have control over these joint ventures and associates. This consideration was based on an analysis of both the shares and the voting rights held by FrieslandCampina for the relevant joint venture or associate.

# Company statement of financial position

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

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Assets** | | | |
| Investments in subsidiaries | (2) | 3,244 | 3,036 |
| Loans to subsidiaries | (3) | 1,302 | 656 |
| Deferred tax assets | | 4 | 6 |
| Other financial assets | (8) | 17 | 21 |
| **Non-current assets** | | **4,567** | **3,719** |
| | | | |
| Other receivables | (4) | 516 | 2,232 |
| Other financial assets | (8) | 29 | 9 |
| **Current assets** | | **545** | **2,241** |
| | | | |
| **Total assets** | | **5,112** | **5,960** |

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Equity** | | | |
| Issued capital | | 370 | 370 |
| Share premium | | 114 | 114 |
| Statutory cash flow hedge reserve | | -14 | -25 |
| Statutory currency translation reserve | | -238 | -257 |
| Statutory reserve for investments in participations | | 251 | 285 |
| Profit for the year attributable to the shareholder | | 158 | 74 |
| Retained earnings | | 822 | 743 |
| **Equity attributable to the shareholder** | (5) | **1,463** | **1,304** |
| Member bonds | | 1,641 | 1,610 |
| Cooperative loan | | 295 | 295 |
| **Equity attributable to the shareholder and other providers of capital** | (5) | **3,399** | **3,209** |
| | | | |
| **Liabilities** | | | |
| Interest-bearing borrowings | (6) | 835 | 975 |
| Other financial liabilities | (8) | 3 | 10 |
| **Non-current liabilities** | | **838** | **985** |
| | | | |
| Interest-bearing borrowings | (6) | 511 | 579 |
| Trade and other payables | | 10 | 11 |
| Current liabilities | (7) | 351 | 1,171 |
| Other financial liabilities | (8) | 3 | 5 |
| **Current liabilities** | | **875** | **1,766** |
| | | | |
| **Total liabilities** | | **1,713** | **2,751** |
| | | | |
| **Total equity and liabilities** | | **5,112** | **5,960** |

# Company income statement

In millions of euros

| | 2019 | 2018 |
|---|---|---|
| Share of profit of subsidiaries, net of tax | 204 | 108 |
| Other results, net of tax | 10 | 22 |
| **Profit for the year** | **214** | **130** |

# 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 of the 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 accordance with the International Financial Reporting Standards as endorsed by the European Union (EU-IFRS). The company income statement is presented in accordance with the exemption of article 2:402 of the Dutch Civil Code.

See the notes to the consolidated financial statements for items not included in the notes to the company financial statements. Investments in subsidiaries are measured using the net asset value.

A statutory reserve has been formed for the retained earnings of participations 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 register.

## 2. Investments in subsidiaries

| | 2019 | 2018 |
|---|---|---|
| At 1 January | 3,036 | 2,400 |
| Profit for the year | 204 | 108 |
| Other comprehensive income for the year | -23 | -50 |
| Other equity movements for the year | 27 | 578 |
| **At 31 December** | **3,244** | **3,036** |

Other equity movements mainly relate to capital contributions and dividends received due to the financing restructuring of subsidiaries.

## 3. Loans to subsidiaries

| | 2019 | 2018 |
|---|---|---|
| At 1 January | 656 | 1,039 |
| Reclassification other receivables | 670 | -811 |
| Loans issued | 5 | 491 |
| Repaid loans | -29 | -63 |
| **At 31 December** | **1,302** | **656** |

**Maturity schedule**

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | 2021-2024 | After 2024 | Total repay-ment | 2020-2023 | After 2023 | Total repay-ment |
| Loans to subsidiaries | 1,275 | 27 | **1,302** | 651 | 5 | **656** |

The loans issued serve to finance subsidiaries. The current portion of these issued loans is recognised under other receivables. The average interest rate on the total of financing of subsidiaries at the end of 2019 was 1.3% (2018: 1.3%).

## 4. Other receivables

EUR 10 million (2018: EUR 991 million) of the other receivables relates to a temporary current account with subsidiaries resulting from the sweep of bank positions within FrieslandCampina and EUR 457 million (2018: EUR 1,225 million) relates to the current receivables from subsidiaries and the current portion of loans to subsidiaries.
In addition, a receivable from Zuivelcoöperatie FrieslandCampina U.A. for an amount of EUR 49 million (2018: EUR 11 million) has been recognized.

## 5. Equity attributable to the shareholder and other providers of capital

The number of issued shares at both the beginning and end of the financial year was 3,702,777 shares. EUR 370 million has been paid-up 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 being 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. Furthermore EUR 251 million (2018: EUR 285 million) has been classified as a statutory reserve for investments in participations. This statutory reserve concerns, among other items, the implementation costs of the ICT standardisation programme (see Note 9 in the consolidated financial statements) and as such cannot be distributed.

The equity that is attributable to the shareholder and other providers of capital and that is included in the company financial statements is equal to the equity attributable to the shareholder and other providers of capital that is included in the consolidated financial statements. See Note 17 in the consolidated financial statements for more details regarding equity.

## 6. Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

| | Year of maturity | % Nominal interest rate | 2019 | Carrying amount | 2018 | Carrying amount |
|---|---|---|---|---|---|---|
| Syndicate (variable interest) | 2019-2020 | 0.4 | 10 | | 20 | |
| European Investment Bank (fixed interest) | 2019-2026 | 0.8 | 146 | | 150 | |
| International Finance Corporation (variable interest) | 2019-2026 | 3.1 | 77 | | 87 | |
| **Borrowings from credit institutions** | | | | **233** | | **257** |
| Private Placement (fixed interest) | 2020 | 5.7 | 118 | | 116 | |
| Private Placement (fixed interest) | 2022 | 4.0 | 71 | | 70 | |
| Private Placement (fixed interest) | 2024 | 4.2 | 130 | | 127 | |
| Private Placement (fixed interest) | 2019-2027 | 4.0 | 146 | | 160 | |
| **Borrowings from institutional investors** | | | | **465** | | **473** |
| Green bonds (fixed interest) | 2021-2026 | 1.4 | 300 | | 300 | |
| **Borrowings from holders of green bonds** | | | | **300** | | **300** |
| Euro commercial paper (variable interest) | 2019-2020 | -0.3 | 275 | | 290 | |
| Other uncommitted facilities (variable interest) | 2019-2020 | | | | 100 | |
| **Uncommitted facilities** | | | | **275** | | **390** |
| Borrowings from member dairy farmers (variable interest) | 2019-2020 | 0.3 | 18 | | 22 | |
| Bank overdrafts (variable interest) | 2019-2020 | 0.6 | 56 | | 116 | |
| Capitalised issue costs | 2019-2027 | | -3 | | -4 | |
| Other interest-bearing borrowings | | | 2 | | | |
| **Other** | | | | **73** | | **134** |
| **Interest-bearing borrowings** | | | | **1,346** | | **1,554** |
| | | | | | | |
| Recognised under non-current interest-bearing borrowings | | | | 835 | | 975 |
| Recognised under current interest-bearing borrowings | | | | 511 | | 579 |

See Note 21 in the consolidated financial statements for the disclosure of borrowings from institutional investors and borrowings from institutional investors.

The borrowings from member dairy farmers concern three-year deposit loans held by member dairy farmers. These loans are immediately repayable on demand by the member dairy farmers against payment of a penalty interest of 0.25%.

## 7. Current liabilities

EUR 351 million (2018: EUR 1,171 million) of the current liabilities concerns a temporary current account with subsidiaries as a result of the sweep of bank positions within FrieslandCampina.

## 8. Other financial assets and liabilities

| | 2019 | 2018 |
|---|---|---|
| Other financial assets | | |
| Cross currency swaps | 42 | 21 |
| Interest rate swaps | 1 | |
| Forward exchange contracts | 2 | 4 |
| Loans issued | | 3 |
| Interest receivable | 1 | 2 |
| | **46** | **30** |
| Other financial liabilities | | |
| Cross currency swaps | 4 | 10 |
| Interest rate swaps | | 2 |
| Forward exchange contracts | 2 | 3 |
| | **6** | **15** |

The cross currency swaps and interest rate swaps are equal to the consolidated financial statements (see Note 22 of the consolidated financial statements). As a result of derivatives arranged with subsidiaries, the forward exchange contracts recognised in other financial assets in the company financial statements are lower than in the consolidated financial statements. The contract volumes for the forward exchange contracts are EUR 285 million (assets) and EUR 462 million (liabilities) (2018: EUR 216 million and EUR 229 million respectively).

## 9. 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 27 of the consolidated financial statements.

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

**Fair value**

The carrying amounts and the fair value of financial assets and liabilities are stated in the table below. 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 fair value of most of the financial instruments recognised in the statement of financial position is virtually the same as the carrying amount.

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets not measured at fair value** | | | | |
| Loans to subsidiaries | 1,302 | 1,302 | 656 | 656 |
| Other receivables | 516 | 516 | 2,232 | 2,232 |
| Other financial assets (excluding hedging derivatives) | 1 | 1 | 5 | 5 |
| | **1,819** | **1,819** | **2,893** | **2,893** |
| **Financial assets measured at fair value** | | | | |
| Hedging derivatives | 45 | 45 | 25 | 25 |
| | **45** | **45** | **25** | **25** |
| **Financial liabilities not measured at fair value** | | | | |
| Interest-bearing borrowings – fixed rate | 911 | 962 | 921 | 942 |
| Interest-bearing borrowings – variable rate | 435 | 437 | 633 | 635 |
| Current liabilities to subsidiaries | 351 | 351 | 1,171 | 1,171 |
| Trade and other payables | 10 | 10 | 11 | 11 |
| | **1,707** | **1,760** | **2,736** | **2,759** |

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial liabilities measured at fair value** | | | | |
| Hedging derivatives | 6 | 6 | 15 | 15 |
| | **6** | **6** | **15** | **15** |

## 10. Commitments and contingencies

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

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

## 11. 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 26 of the consolidated financial statements. During the year under review, the two members of the Executive board were employed by the Company.

## 12. Subsequent events

As per 1 January 2020, FrieslandCampina implemented a legal restructuring of its group structure to comply with the fiscal cooperative regime, as disclosed in paragraph 'Taxes' of the Annual Report. The value of transferred assets on 1 January 2019 is equal to the value of transferred liabilities. The transfer does not have impact on equity of the Company. As a result of the legal restructuring, the result of the C.V. will be allocated directly to the Cooperative and no longer to the Company.

For information regarding other subsequent events, see Note 29 of the consolidated financial statements.

## 13. Proposed appropriation of profit attributable to the shareholder

The Supervisory Board has approved the Executive Board's proposal that of the EUR 214 million profit, EUR 8 million is reserved as interest compensation for the Cooperative loan, EUR 48 million is reserved as interest compensation on the member bonds and EUR 158 million is added to the retained earnings.

Amersfoort, the Netherlands, 14 February 2020

**Executive board**
**Royal FrieslandCampina N.V.**
H.M.A. Schumacher, CEO
J.M. de Bakker, CFO

**Supervisory Board**
**Royal FrieslandCampina N.V.**
F.A.M. Keurentjes, Chairman
W.M. Wunnekink, Vice-Chairman
J.W. Addink-Berendsen
W. Dekker
H.T.J. Hettinga
D.R. Hooft Graafland
C.C.H. Hoogeveen
A.A.M. Huijben-Pijnenburg
E. Jellema
A.G.Z. Kemna
G. Mulder
H. Schipper
H. Stöcker

# 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.

# Auditor's assurance report

168 Independent auditor's report
178 Assurance report of the independent auditor

# Independent auditor's report

**To: the general meeting of shareholders and the supervisory board of Royal FrieslandCampina N.V.**

## Report on the financial statements 2019

### Our opinion

In our opinion:

- the consolidated financial statements of Royal FrieslandCampina N.V. together with its subsidiaries ('the Group') give a true and fair view of the financial position of the Group as at 31 December 2019 and of its result and 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 Dutch Civil Code;
- the company financial statements of Royal FrieslandCampina N.V. ('the Company') give a true and fair view of the financial position of the Company as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

**What we have audited**

We have audited the accompanying financial statements 2019 of Royal FrieslandCampina N.V., Amersfoort. The financial statements include the consolidated financial statements of the Group and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the following statements for 2019: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company statement of financial position as at 31 December 2019;
- the company income statement for 2019;
- the notes, comprising the accounting policies applied and other explanatory information.

The financial reporting framework applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

### The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of Royal FrieslandCampina N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

### Our audit approach

**Overview and context**

Royal FrieslandCampina N.V. is a dairy company and is through Zuivelcoöperatie FrieslandCampina U.A. owned by the member dairy farmers. The member dairy farmers are responsible for the milk deliveries and are represented in the Supervisory Board of FrieslandCampina. These members are important stakeholders of FrieslandCampina and

therefore also influenced the materiality setting as included in the paragraph 'Materiality' in this auditor's report. The organisational structure is further explained in the Corporate governance chapter of the annual report. This structure also has its influence on the management and reporting of the group, and it has its influence on the annual report and our audit approach, for example regarding to purchases of milk and cooperative activities (further explained in the 'This is FrieslandCampina' chapter of the annual report). The Group comprises several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Judgements, estimates and assumptions' within the paragraph 'Notes to the consolidated financial statements' of the financial statements the executive board describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Of these estimates, we deem the estimates related to the valuation of goodwill and intangible assets and the valuation of tax positions to be the most significant, and therefore they had the most significant impact on our audit approach. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of these positions, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report. Another area of focus, that was not considered as key audit matter, was the implementation of IFRS 16. Despite the impact on statement of financial position of the company, we did not consider this to be a key audit matter given the limited impact on the profit for the year and the limited amount of assumptions and judgement required.

As in all of our audits, we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by the executive board that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams at both group and component level included the appropriate skills and competences which are needed for the audit of a global dairy company. We therefore included experts and specialists in the areas of IT systems, valuation of assets, (international) taxes, financial instruments and long-term employee benefits in our team.

The outline of our audit approach was as follows:

**Materiality**
- Overall materiality: EUR 45 million

**Audit scope**
- We conducted audit work in 19 components in 15 locations.
- Site visits were conducted to 5 countries – Belgium, Germany, Greece, Hungary and Russia.
- Audit coverage: 83% of consolidated revenue, 91% of consolidated total assets and 86% of consolidated profit before tax.

**Key audit matters**
- Valuation of goodwill and intangible assets
- Valuation of tax positions

## Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

| | |
|---|---|
| Overall group materiality | EUR 45 million (2018: EUR 45 million). |
| Basis for determining materiality | We used our professional judgement to determine overall materiality. As a basis for our judgement we used 1.5 % of the compensation to the member dairy farmers for milk supply. The materiality benchmark is consistent with prior year, based on our professional judgement and the common need of the users the materiality is maximized at EUR 45 million. |
| Rationale for benchmark applied | The benchmark is based on our analysis of the common information needs of users of the financial statements. On this basis, we believe that the compensation to the members for milk supply is an important metric for the financial performance of the company. |
| Component materiality | To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality. |

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board that we would report to them misstatements identified during our audit above EUR 1 million (2018: EUR 1 million) that affect the result as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### The scope of our group audit

Royal FrieslandCampina N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Royal FrieslandCampina N.V. The activities of the group have been divided into four business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. The execution and coordination of the group audit has been performed along the lines of these four business groups.

We tailored the scope of our audit to ensure that we, in aggregate, provide sufficient coverage of the financial statements for us to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the group engagement team and by each component auditor.

In determining the scope of our group audit we have taken into account the following elements of the internal control environment of the group:

- Internal Control Framework: during the coordination of our group audit we instructed the component teams to, where relevant for the audit, make use of the Internal Control Framework and to report to us their observations regarding the design and effectiveness thereof. In circumstances where it was not deemed effective or efficient to rely on the internal control framework of the Group, additional substantive procedures have been performed to obtain sufficient and appropriate audit evidence.
- Central IT systems: the Group implements one global ERP-system in most of the countries. The majority of the IT-systems of the group are operated centrally. Our IT-specialists have tested the IT general controls (ITGCs) and IT dependencies of the central ERP system. During this audit some non-significant findings were identified, which have been addressed by additional substantive procedures. We have shared the results of our audit procedures with the component teams.
- Shared Service Centers: the Group has multiple Shared Service Centers worldwide. In the Dutch Shared Service Centre the majority of the administration for the Dutch subsidiaries is performed and this Shared Service Centre was therefore audited by the group team. The Shared Service Centers in Malaysia and Budapest are audited by component teams, they report the results of their work to the various component audit teams.
- To give direction to our audit we took notice of the results of the work performed and the reports of Corporate Internal Audit. We do not rely on their work, where relevant we used their results for our risk assessment.

In determining the scope of the group audit we have taken into account, apart from the abovementioned elements, the relative share of the individual components and the risk profile of these components. We marked the Dutch component as significant, none of the

other components have been marked as significant based on their size or risk profile. Next to the significant component, we subjected 17 components to audits of their complete financial information to gain sufficient coverage over the financial statements line items, for one component we performed specific audit procedures to achieve appropriate coverage over individual financial statements line items. In total we performed audit procedures at 19 components in 15 countries.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

| | |
|---|---|
| Revenue | 83% |
| Total assets | 91% |
| Profit before tax | 86% |

None of the remaining components represented more than 2% of total group revenue or total group assets. For those remaining components we performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group engagement team performed the audit work for the Dutch activities. In addition, the group consolidation, financial statements disclosures and a number of complex audit items are audited by the group engagement team. These are the restructuring provisions, the valuation of goodwill and intangible assets and significant tax positions.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient and appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. We had individual calls with each of the in-scope component audit teams during the year including upon conclusion of their work. During these calls, we discussed the risk assessment, audit approach, the progress of the audit and, based on the reports of the component auditors, the findings of their procedures and other matters.

Where this was deemed necessary, we expanded this by executing file reviews to evaluate the quality of the procedures. With the financial directors of the business groups and the local auditors we discussed the financial results, the significant estimates and findings identified during the audit. The group engagement team visits the component teams and local management based on size and on a rotational basis. In the current year the group audit team visited the location in Hungary given that one of the Shared Service Centers is located there. We visited the locations in Belgium, Germany, Greece and Russia on a rotational basis.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the 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 identified in our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comment or observation we made on the results of our procedures should be read in this context.

| Key audit matter | Our audit work and observations |
|---|---|
| Valuation of goodwill and intangible assets | |
| **Valuation of goodwill**<br>***Refer to note 9 of the financial statements***<br>The group recorded EUR 1,103 million of goodwill related to historical acquisitions. The goodwill is subject to an annual impairment test at the level of individual business groups. The valuation of goodwill is complex and involves managements estimates, which are inherently uncertain. Given the material impact of goodwill, any change in the assumptions, based on their sensitivity, could have a significant effect on the financial statements. Based on this we consider the valuation of goodwill to be a key audit matter.<br><br>The valuation of goodwill is tested based on the value in the use, which is based on the discounted cash flows. The most important assumptions for testing the valuation are the discount rate, the long-term growth rate, the gross margin growth rate and the developments in results.<br><br>Compensation for the role that mainly Dairy Essentials has in processing the members milk ("cooperative role") is considered in the model. The compensation from other business groups is to cover the losses on mainly basic dairy products as a result of the fact that all milk supplied by the member farmers has to be processed. This allocation is subject to management estimates. During 2019 management refined this allocation method. Financial results from those activities that have a cooperative role are being allocated to the other business groups based on the volume of milk from member farmers that they process | **Valuation of goodwill**<br>We have tested the valuation methodology, the assumptions applied in the goodwill impairment model and we have tested the underlying calculations. Together with the valuation specialists, we have tested the discount rate and long-term growth rate with available market information (such as market interest rate and inflation) as well as our own independent assessment. We did not find material exceptions. In addition, the gross margin growth rate and result developments are reconciled to the budget and management forecasts (budget 2020 and the long-term plans until 2022). The decrease of FrieslandCampina's results did not lead to an impairment, however led to a decrease of the headroom compared to 2018.<br><br>We assessed the outcome of prior year estimates in order to assess the risks. In addition, we verified the process regarding budgeting and forecasting. We have verified management's budget and forecasts by reconciling them with external information and market outlooks. The estimations as made by management are consistent and in line with our expectations.<br><br>We inquired with management regarding the revised allocation method of the compensation between the business groups, we confirmed this by reconciling the model with underlying supporting evidence. We paid specific attention to confirm that losses are allocated to other business groups based on an accurate and consistent manner and reflect the economic reality. We did not find exceptions.<br><br>Based on our procedures we conclude that the disclosures include the required information regarding estimates, assumptions and sensitivities. |

| Key audit matter | Our audit work and observations |
|---|---|
| Valuation of goodwill and intangible assets | |
| **Valuation of intangible assets**<br>The intangible assets other than goodwill are tested by management for triggering events that might result in an impairment. We paid specific attention to the valuation given the dynamics within this international group and the declining operational results.<br><br>One of the impairment tests that management prepared relates to FrieslandCampina Engro Pakistan Ltd. Management compared, as a result of the listing on the stock exchange of FrieslandCampina Engro Pakistan Ltd., the recoverable amount with the fair value less cost of disposal based on the stock price. Based on this assessment, FrieslandCampina concluded that no impairment has to be recognized. | **Valuation of intangible assets**<br>For the valuation of intangible assets other than goodwill, we have tested management's assessment based on underlying budgets, plans and reports and verified the consistency of the assumptions with those used in the goodwill impairment model.<br><br>We challenged managements impairment tests by reconciling the underlying assumptions with the budgets and forecasts. We tested managements calculation of the valuation of FrieslandCampina Engro Pakistan Ltd. by reconciling the calculation to the stock price and the financial administration. We did not identify any material issues.<br><br>Our procedures confirmed that the disclosures include the required information regarding the assumptions and estimations made by management. |

| Key audit matter | Our audit work and observations |
|---|---|
| Valuation of goodwill and intangible assets | |
| Valuation of tax positions<br>*Refer to note 7, 19 and 24 of the financial statements*<br>The group has subsidiaries in several countries and is therefore subject to local tax legislation. In the paragraph 'Taxes' of the annual report FrieslandCampina's approach towards tax positions is described.<br><br>Because of the complexity of multiple local tax regimes, the determination and local acceptance of internal transfer pricing is difficult. The determination can have an impact on the local fiscal results and taxes payable.<br><br>The recognition and valuation of tax positions is subject to judgement because it involves interpretation of local tax legislation (including the local acceptance of the internal transfer prices as applied by FrieslandCampina). The outcome of legal processes in the relevant tax jurisdiction are difficult to predict and can therefore deviate from the estimation.<br><br>Given that the tax positions are material and are inherently uncertain, a significant risk of inaccurate internal transfer prices and inaccurate valuation of tax positions exists. Based on this we consider this a key audit matter for our audit. | Valuation of tax positions<br>We conducted the audit together with international tax specialists. Our procedures consisted of, amongst other, a risk assessment including the evaluation of the outcome of estimations that were made by management in prior years. We tested the accuracy of the internal transfer prices by reconciling them to correspondence from the tax authorities, internal transfer pricing documentation and tax legislation combined with our own independent analysis.<br><br>Our procedures were focussed on determining whether the legal processes in the relevant tax jurisdictions will lead to a tax liability or provision in the financial statements. For this purpose we assessed correspondence with the tax authorities and we prepared our own independent analysis, together with our international tax specialists, to assess the status and treatment of the procedures. We compared management's calculation with our calculation and determined that management's assessment is within the bandwidth.<br><br>For the valuation, we have tested the underlying assumptions by reconciling these with budgets and forecasts. We confirmed the accuracy of the information related to local tax regimes such as tax rates and the length of the period in which historical tax losses can be settled. We verified the consistency of the budgets and forecasts used with those that were used as a basis for the valuation of goodwill and non-current assets. We did not identify any material issues.<br><br>In addition to this, we have verified whether the required disclosures for the tax positions are adequately disclosed in the financial statements in notes 19 and 24 of the financial statements. |

## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:
- a word from the CEO;
- 2019 key figures;
- this is FrieslandCampina;
- report of the Executive Board;
- corporate governance;
- the Other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.
- overviews; and
- appendices;

Based on the procedures performed as set out below, we conclude that the other information:
- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Our appointment

On 30 April 2015, we were, based on nomination of the supervisory board, appointed as auditors of Royal FrieslandCampina N.V. by the general meeting of shareholders. This appointment is reconfirmed on an annual basis by the general meeting of shareholders. We have been auditors of the company for a total period of uninterrupted engagement of 4 years.

## Responsibilities for the financial statements and the audit

### 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 with Part 9 of Book 2 of the Dutch Civil Code; and 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 fraud or error.

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 responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 14 February 2020

PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by J.E.M. Brinkman RA

## Appendix to our auditor's report on the financial statements 2019 of Royal FrieslandCampina N.V.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

### The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluding on the appropriateness of the executive board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

# Assurance report of the independent auditor

**To: the executive board and supervisory board of Royal FrieslandCampina N.V.**

## Assurance report on the sustainability information 2019

### Our conclusion

Based on our procedures performed nothing has come to our attention that causes us to believe that the sustainability information included in the annual report 2019 of Royal FrieslandCampina N.V. does not present, in all material respects, a reliable and adequate view of:

- the policy and business operations with regard to sustainability; and
- the thereto related events and achievements for the year ended 31 December 2019
- in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria as included in the section 'reporting criteria'.

### What we have reviewed

We have reviewed the sustainability information included in the annual report for the year ended 31 December 2019, as included in the following sections in the annual report (hereafter: "the sustainability information"):

- A word from the CEO;
- Key figures;
- This is FrieslandCampina;
- Report of the Executive Board, with exception of paragraphs 'Risk Management', 'Outlook', 'Management statement' and 'Statement of Executive Responsibility'.

Appendices 'Stakeholder dialogue' and 'HR Data'.
This review is aimed at obtaining a limited level of assurance.

The sustainability information comprises a representation of the policy and business operations of Royal FrieslandCampina N.V., Amersfoort (hereafter: "FrieslandCampina") with regard to sustainability and the thereto related business operations, events and achievements for the year ended 31 December 2019.

### The basis for our conclusion

We have performed our review in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assuranceopdrachten inzake maatschappelijke verslagen' ('Assurance engagements on corporate social responsibility reports'), which is a specified Dutch Standard that is based on the International Standard on Assurance Engagements (ISAE) 3000 'Assurance Engagements other than Audits or Reviews of Historical Financial Information'. Our responsibilities under this standard are further described in the section 'Our responsibilities for the review of the sustainability information' of this assurance report.

We believe that the assurance evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

#### Independence and quality control

We are independent of FrieslandCampina in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO – Code of Ethics for Professional Accountants, a regulation with respect to independence) and other for the engagement relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA – Dutch Code of Ethics).

We apply the 'Nadere voorschriften kwaliteitssystemen' (NVKS – Regulations for quality systems) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and other relevant legal and regulatory requirements.

### Reporting criteria

The sustainability information needs to be read and understood in conjunction with the reporting criteria. The executive board of FrieslandCampina is solely responsible for selecting and applying these reporting criteria, taking into account applicable law and regulations related to reporting.

The reporting criteria used for the preparation of the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applied reporting criteria, as disclosed in paragraph Introduction and appendix 'Glossary' of the annual report. The absence of an established practice on which to draw, to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time.

### Limitations to the scope of our review

The sustainability information includes prospective information such as expectations on ambitions, strategy, plans and estimates and risk assessments. Inherently, the actual results are likely to differ from these expectations. These differences may be material. We do not provide any assurance on the assumptions and the achievability of prospective information in the sustainability information.

The links to external sources or websites in the sustainability information are not part of the sustainability information reviewed by us. We do not provide assurance over information outside of the annual report.

## Responsibilities for the sustainability information and the review

### Responsibilities of the executive board and the supervisory board

The executive board of FrieslandCampina is responsible for the preparation of reliable and adequate sustainability information in accordance with the reporting criteria as included in section 'reporting criteria', including the identification of stakeholders and the definition of material matters. The choices made by the executive board regarding the scope of the sustainability information and the reporting policy are summarized in paragraph Introduction and appendix 'Glossary' of the annual report. The executive board is responsible for determining that the applicable reporting criteria are acceptable in the circumstances.

The executive board is also responsible for such internal control as the executive board determines is necessary to enable the preparation of the sustainability information that is free from material misstatement, whether due to fraud or errors.

The supervisory board is responsible for overseeing the company's reporting process on the sustainability information.

### Our responsibilities for the review of the sustainability information

Our responsibility is to plan and perform the review engagement in a manner that allows us to obtain sufficient and appropriate assurance evidence to provide a basis for our conclusion.

Procedures performed to obtain a limited level of assurance are aimed to determine the plausibility of information and vary in nature and timing from, and are less in extent, than for a reasonable assurance engagement. The level of assurance obtained in review engagements is therefore substantially less than the assurance obtained in audit engagements.

### Procedures performed

We have exercised professional judgement and have maintained professional scepticism throughout the review, in accordance with the Dutch Standard 3810N, ethical requirements and independence requirements.

Our procedures included amongst others:

- Performing an analysis of the external environment and obtaining insight into relevant social themes and issues and the characteristics of the company.
- Evaluating the appropriateness of the reporting criteria used, their consistent application and related disclosures in the sustainability information. This includes the evaluation of the results of the stakeholders' dialogue and the reasonableness of estimates made by the executive board.
- Obtaining an understanding of the reporting processes for the sustainability information, including obtaining a general understanding of internal control relevant to our review.
- Identifying areas of the sustainability information with a higher risk of misleading or unbalanced information or material misstatement, whether due to fraud or errors. Designing and performing further assurance procedures aimed at determining the plausibility of the sustainability information responsive to this risk analysis. These procedures consisted amongst others of:
  - Interviewing management (and/or relevant staff) at corporate level responsible for the sustainability strategy, policy and results;
  - Interviewing relevant staff responsible for providing the information for, carrying out internal control procedures on, and consolidating the data in the sustainability information.
  - Determining the nature and extent of the review procedures for the group components and locations. For this, the nature, extent and/or risk profile of these components are decisive. Based thereon we selected the locations to visit. The visits to the production site in Borculo and a dairy farmer in the Netherlands are aimed at, on a local level, validating source data and evaluating the design and implementation of internal controls and validation procedures;
  - Obtaining assurance evidence that the sustainability information reconciles with underlying records of the company;
  - Reviewing, on a limited test basis, relevant internal and external documentation;
  - Performing an analytical review of the data and trends in the information submitted for consolidation at corporate level.
- Reconciling the relevant financial information with the financial statements.
- Evaluating the consistency of the sustainability information with the information in the annual report, which is not included in the scope of our review.
- Evaluating the presentation, structure and content of the sustainability information;
- To consider whether the sustainability information as a whole, including the disclosures, reflects the purpose of the reporting criteria used.

We communicate with the supervisory board on the planned scope and timing of the engagement and on the significant findings that result from our engagement.

Amsterdam, 14 February 2020

PricewaterhouseCoopers Accountants N.V.

Please note: this review report is an unofficial translation of the official review report in Dutch, signed by J.E.M. Brinkman on 14 February 2020

# Overviews

182 Financial history
183 Milk price overview
184 Supervisory Board
187 Executive Leadership Team

# Financial history

In millions of euros, unless stated otherwise

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|
| **Key figures** | | | | | |
| **Income statement** | | | | | |
| Revenue | 11,297 | 11,553 | 12,110 | 11,001 | 11,210 |
| Operating profit | 432 | 342 | 444 | 563 | 576 |
| Profit for the year | 278 | 203 | 227 | 362 | 343 |
| | | | | | |
| **Milkprice**[1] | | | | | |
| Guaranteed price | 35.66 | 36.05 | 37.96 | 28.38 | 30.68 |
| Performance premium | 1.07 | 0.46 | 1.03 | 2.19 | 2.25 |
| Issue of member bonds | 0.31 | 0.13 | 0.30 | 1.25 | 1.28 |
| Meadow milk premium | 0.65 | 0.63 | 0.60 | 0.29 | 0.29 |
| Special supplements | 0.26 | 0.16 | 0.12 | 0.15 | 0.14 |
| Milk price | 37.95 | 37.43 | 40.01 | 32.26 | 34.64 |
| | | | | | |
| **Financial position** | | | | | |
| Balance sheet total | 9,049 | 8,823 | 9,046 | 9,318 | 8,421 |
| Equity attributable to the shareholder | 1,463 | 1,304 | 1,287 | 1,309 | 1,108 |
| Equity attributable to the shareholder and other providers of capital | 3,399 | 3,209 | 3,178 | 3,169 | 2,832 |
| Net debt in accordance with covenant guidelines | 1,067 | 1,287 | 1,400 | 1,225 | 1,108 |
| | | | | | |
| **Cash flows** | | | | | |
| Net cash flows from operating activities | 567 | 619 | 418 | 850 | 1,019 |
| Net cash flows used in investing activities | -185 | -490 | -414 | -955 | -705 |
| Depreciation of plant and equipment and amortisation of intangible assets | 441 | 362 | 368 | 307 | 275 |
| | | | | | |
| **Additional information** | | | | | |
| Equity as a % of total assets | 37.6 | 36.4 | 35.1 | 34.0 | 33.6 |
| | | | | | |
| Employees (average number of FTEs) | 23,816 | 23,769 | 23,675 | 21,927 | 22,049 |
| | | | | | |
| Milk supplied by members (in millions of kg) | 10,020 | 10,375 | 10,716 | 10,774 | 10,060 |

1 In euros per 100 kgs of milk with 3.47% protein, 4.41% fat and 4.51% lactose , in ratio 10:5:1, ex. vat.

# 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 ex. vat.

| | 2019 | 2018 |
|---|---|---|
| Fat price | 12.84 | 12.98 |
| Protein price | 20.20 | 20.42 |
| Lactose price | 2.62 | 2.65 |
| **Guaranteed price** | **35.66** | **36.05** |
| Performance premium | 1.07 | 0.46 |
| Meadow milk premium[1] | 0.65 | 0.63 |
| Special supplements[2] | 0.26 | 0.16 |
| **Cash price** | **37.64** | **37.30** |
| Issue of member bonds | 0.31 | 0.13 |
| **Milk price** | **37.95** | **37.43** |
| Interest member bonds | 0.47 | 0.45 |
| Retained earnings | 1.58 | 0.72 |
| **Performance price** | **40.00** | **38.60** |

1 Dairy farmers applying pasturing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2019. Of this, an amount of 1.00 euros per 100 kilos of meadow milk is paid from the operating profit. Averaged over all FrieslandCampina member milk, this amounts to 0.65 euros per 100 kilos of milk. Furthermore, another 0.50 euros per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euros per 100 kilos of milk is withheld from all milk. This also pays for the partial meadow milk premium.

2 Special supplements concerns the total amount paid out per 100 kilos of Landliebe milk (1.00 euro) and the difference between the organic milk guaranteed price (47.35 euro) and the guaranteed price (35.66) per 100 kilos of milk. Averaged over all FrieslandCampina member milk this amounts to 0.26 euro per 100 kilos of milk.

# Supervisory Board

**Frans (F.A.M.) Keurentjes (1957)**

**Position** Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy farmer
**Other positions** Member of the Executive Board of Top Agri & Food Sector, Chairman of Noordelijk Landbouw Beraad [Northern Agricultural Consultation Board], Member of the Agricultural Tenancies Authority North, Member of the Board of NCR (National Cooperative Council)

**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.
**Nationality** Dutch
**Profession** Dairy Farmer
**Other positions** Member of the Supervisory Board of ForFarmers N.V.
Member of the Supervisory Board of Alfa Top-Holding B.V.

**Hans (H.T.J.) Hettinga (1959)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy farmer
**Other positions** CDA Chairman Súdwest-Fryslân Municipal Council

**Erwin (W.M.) Wunnekink (1970)**

**Position** Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V., Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy farmer
**Other positions** Member of the Supervisory Board of ForFarmers N.V.

**Wout (W.) Dekker (1956)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V.
**Nationality** Dutch
**Other positions** Chairman of the Supervisory Board of Randstad N.V., Member of the Supervisory Board of SHV Holdings N.V., Managing Director of Women on Wings
Member of the Supervisory Board of Pon Holdings B.V.

**Cor (C.C.H.) Hoogeveen (1962)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy farmer
**Other positions** None

**René (D.R.) Hooft Graafland (1955)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V.
**Nationality** Dutch
**Other positions** Vice-chairman of the Supervisory Board of Wolters Kluwer N.V., Member of the Supervisory Board of Royal Ahold Delhaize N.V., Chairman of the Board of the African Parks Foundation, Chairman of the Board of Nationaal Fonds 4 en 5 mei Foundation, Chairman of the Board of the Carré Fonds, Member of the Corporate Governance Code Monitoring Committee, Member of the Supervisory Board of Lucas Bols N.V.

**Elze (E.) Jellema (1979)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy Farmer
**Other positions** None

**Gjalt (G.) Mulder (1970)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** Dutch
**Profession** Dairy farmer
**Other positions** Member of the AB Fryslân and Noord-Holland Members' Council

**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.
**Nationality** Dutch
**Profession** Dairy Farmer
**Other positions** None

**Angelien (A.G.Z.) Kemna (1957)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V.
**Nationality** Dutch
**Other positions** Non-Executive Director AXA Group S.A. Senior Independent Director AXA Investment Management S.A., Vice-chairman of the Supervisory Board of NIBC N.V. Chairman Advisory Council Ownership Capital B.V. Member Future of Finance Advisory Group, CFA Institute Member Denkwerk Nederland [Netherlands Think Tank]

**Heiko (H.W.J.) Schipper (1969)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V.
**Nationality** Dutch
**Profession** Member of the Board of Management Bayer AG President of the Consumer Health Division
**Other positions** Member of the Executive Committee and Board of GSCF

**Hans (H.) Stöcker (1964)**

**Position** Member of the Supervisory Board of Royal FrieslandCampina N.V., Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
**Nationality** German
**Profession** Dairy farmer
**Other positions** Chairman Landesvereinigung Milch NRW, Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW, Member of the Kreisstelle Oberberg der Landwirtschaftskammer Nordrhein-Westfalen, Member of the Landschaftsbeirat Oberbergischer Kreis, Member of the Supervisory Board of Raiffeisen Warengenossenschaft Rheinland eG, Chairman of the 'Milch und Kultur Rheinland und Westfalen' Association

## Audit Committee

Angelien Kemna, Chairman
René Hooft Graafland
Sandra Addink-Berendsen
Angelique Huijben-Pijnenburg

## Remuneration & Appointment Committee

Wout Dekker, Chairman
Frans Keurentjes
Erwin Wunnekink

# Executive Leadership Team

## Executive Board

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

**Position** Chief Executive Officer
**Appointment** 1 January 2018
**Nationality** Dutch
**Responsible for**
Business groups
Cooperative Affairs
Corporate Affairs, Communication & Public Affairs
Corporate Human Resources
Corporate Internal Audit
Corporate Legal & Company Secretariat,
Corporate Research & Development
Corporate Strategy & Transformation
Corporate Supply Chain
**Other positions** Chairman of the Board of the Dutch Dairy Association (NZO), Member of the Supervisory Board of the Royal Music Hall

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

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

## Other Members

**Roel van Neerbos**
President FrieslandCampina Consumer Dairy

**Berndt Kodden**
President FrieslandCampina Specialised Nutrition

**Hans Meeuwis**
President FrieslandCampina Dairy Essentials

**Herman Ermens**
(acting) President FrieslandCampina Ingredients

**Geraldine Fraser**
Corporate Director FrieslandCampina Human Resources

**Margrethe Jonkman**
Global Director FrieslandCampina Research & Development

**Roman Scieszka**
Corporate Director FrieslandCampina Supply Chain

# Appendices

189 2019 Sustainability targets
190 Explanation of the materiality matrix
192 GRI table
198 Stakeholder dialogue
208 HR data
209 Glossary

# 2019 Sustainability targets

| | KPI | 2019 Objectives |
|---|---|---|
| 1 | Percentage consumer products that complies with the FrieslandCampina Global Nutritional Standards | 68% |
| 2 | Dairy farmers trained through training programmes in DDP countries | 62,558 |
| 3 | Greenhouse gas emissions by member dairy farms (kt $CO_2$ equivalent) | 11,600[1] |
| 4 | Greenhouse gas emissions from transport and production per tonne of end-product (kt $CO_2$ equivalent) | -8% compared to 2018 |
| 5 | Percentage of agricultural raw materials and paper packaging originating from renewable sources | 85% |
| 6 | Water consumption per tonne of produced product | -2% compared to 2018 (4.99 $m^3$/tonne) |
| 7 | Percentage recyclable plastic packaging (plastic suitable for sorting and recycling systems) | 30% |
| 8 | Number of recorded accidents per 200,000 hours worked | 0.35 |
| 9 | Percentage (partial) pasture grazing | 81.2% |
| 10 | Responsible antibiotics use with an SDa target value of less than 6 DDD/y as the guideline | SDa target value <6 DDD/y |

1 At year-end 2019, the 2018 and 2019 results were adjusted to account for the adjusted sector model. The 2019 target has not been adjusted. The unadjusted 2019 result was 11,172 kt $CO_2$ equivalents.

# Explanation of the materiality matrix

The materiality analysis consists of the following steps:

### Step 1 – Recalibration of relevant themes

A materiality test is performed by a third party every two years to define the social and environmental subjects that matter most to FrieslandCampina and its stakeholders. This is based on Global Reporting Initiative (GRI) Standards. First, a short list of subjects was established based on previous materiality analyses. Various new subjects were added to this list, and other less relevant subjects were removed. To check whether all relevant issues are covered, a sector and environmental analysis as well as a media analysis were performed. The sector and environmental analyses focused on, among other things, the reporting of peer companies and sustainability and other trends within the sector, whereas the media analysis identified issues that received a lot of media coverage. This resulted in a list of 20 important topics for FrieslandCampina. A theme is relevant when FrieslandCampina has or can have influence on it. This applies within the company, as well as in the value chain.

### Step 2 – Prioritising the themes

The priority of the issues is determined through an online survey which is filled in by a broad representation of internal and external stakeholders. Stakeholders were asked to prioritise the five topics they found most relevant from one to five. Moreover, the stakeholders were also asked to indicate which five topics they considered to be least relevant for FrieslandCampina. In addition to the stakeholders' perspective, Members of the Executive Leadership Team were asked to prioritise the five topics on which they considered FrieslandCampina to have, or could have, the greatest impact. And finally, the members of the executive leadership team (ELT) were also asked to indicate the five topics that FrieslandCampina has, based on their knowledge, the least impact on.

### Step 3 – Impact on policy and reporting

The outcome of the analysis was included in determining the themes on which FrieslandCampina will be focusing. The material issues form the basis of FrieslandCampina's sustainability strategy and therefore of the content of this report. The Executive Board was involved in developing and approving the sustainability strategy. The Executive Board is informed about the progress of the strategy and material issues on a monthly basis so that adjustments can be made as necessary. The Materiality Matrix identifies the material issues, and shows how these are linked to the sustainability strategy. The 2019 materiality analysis shows that the carbon footprint is the most important topic, followed by innovation, the milk price, nature & biodiversity and nutritional & healthy products.

### Definitions and measuring methods

The Corporate Sustainability department and the Sustainability Council are responsible for the collection and verification of the reported information. The information is submitted by the various operating companies, the supply chain organisations of the business groups and the relevant corporate and support departments. Environmental and HR data is retrieved by the central financial data system on a monthly basis.
No material uncertainties or inherent limitations were detected in the data due to measurements, estimates or calculations. Any changes in the data definitions and measuring methods compared to previous years are indicated accordingly with the data. For the definition of the terms in this report, see page 209 to 210: Glossary and Reporting Definitions.

### Governance Sustainability

FrieslandCampina's Executive Board has final responsibility for FrieslandCampina's sustainability policy. The development and coordination of this policy are the responsibility of the Corporate Sustainability department. The Sustainability Council is responsible for assessment and consultation. The Council meets each month to discuss the progress of the ambitions as set out in our purpose nourishing by nature. This Governance Board is chaired by a senior leadership member.

Corporate Sustainability has various responsibilities, including:

- developing and updating the sustainability policy;
- the dialogue with stakeholders;
- coordinating and facilitating the implementation of the sustainability policy;
- involving external stakeholders in the sustainability policy;
- demonstrating sustainability efforts to both internal and external stakeholders;
- supporting the business groups and operating companies in translating the corporate sustainability policy to brand policy and other policies.

The business groups and operating companies are primarily responsible for implementing the sustainability policy within the company.

# GRI table

| Indicator | Indicator | References |
|---|---|---|
| **GRI 102: General disclosures 2019** | | |
| **Organizational profile** | | |
| 102-1 | Name of the organisation | AR; cover sheet;<br>This is FrieslandCampina p.9 |
| 102-2 | Key brands, products and/or services | AR: This is FrieslandCampina p.9;<br>This is FrieslandCampina – our brands p.18-19 |
| 102-3 | Location of the organisation's head office | AR: Corporate Governance – Company, share capital and articles of association p.79;<br>Back cover |
| 102-4 | Number of countries where the organisation is active | AR: This is FrieslandCampina – p.9;<br>This is FrieslandCampina – FrieslandCampina worldwide p.17 |
| 102-5 | Ownership structure and legal form | AR: This is FrieslandCampina – p.9;<br>This is FrieslandCampina – Company and Cooperative p.16;<br>Corporate Governance p.75-76 |
| 102-6 | Sales markets | AR: This is FrieslandCamppina – FrieslandCampina worldwide p.17 |
| 102-7 | Size of the reporting organisation | AR: Key Figures 2019 p.8;<br>This is FrieslandCampina p.9;<br>This is FrieslandCampina – Value Creation p.12;<br>This is FrieslandCampina – FrieslandCampina worldwide p.17<br>Report of the Executive Board- Our employees p.60;<br>Report of the Executive Board- Good living for our farmers – Good living for our farmers p.35 |
| 102-8 | Composition of workforce | AR: Report of the Executive Board – Our employees p.60;<br>Appendix 5: HR Data p.206 |
| 102-9 | Description of the organisation's supply chain | AR: This is FrieslandCampina p.9;<br>This is FrieslandCampina – Company and Cooperative p.16; |

| Indicator | Indicator | References |
|---|---|---|
| 102-10 | Significant changes during the reporting period | AR: Key Figures 2019 p.9;<br>Report of the Executive Board- FrieslandCampina in 2019 - Developments and Results p. 22;<br>Report of the Executive Board- The Dairy Sector in 2019 p.23;<br>Report of the Executive Board- Consumer market trends and developments p. 25;<br>Report of the Executive Board- Better nutrition - Better nutrition p. 27;<br>Report of the Executive Board- Good living for our farmers - Good living for our farmers p. 35;<br>Report of the Executive Board- Now and for generations to come - Now and for generations to come p.49 |
| 102-11 | Explanation of the application of the precautionary principle by the reporting organisation | AR: Report of the Executive Board - Risk Management p.64 |
| 102-12 | Externally developed economic, environmental and social charters, principles that the organisation is committed to | AR: Better nutrition - Foqus: quality and food safety p.30;<br>Report of the Executive Board - Working at FrieslandCampina - Human Rights p.63 |
| 102-13 | Memberships of associations (including sector boards) and national and international special interest groups | AR: Report of the Executive Board- Now and for generations to come - Sustainable development through partnerships p.51<br>See: https://www.frieslandcampina.com/en/sustainability/sustainability-in-practice/memberships-collaboration-and-covenants/ |
| **Strategy** | | |
| 102-14 | Statement of the highest decision-maker | AR: A word from the CEO p.5 |
| **Ethics and integrity** | | |
| 102-16 | Standards, values, principles, standards and codes of conduct applied | AR: Report of the Executive Board- Working at FrieslandCampina - Culture p.62;<br>Report of the Executive Board- Working at FrieslandCampina - Compass p.62; |
| **Bestuursstructuur** | | |
| 102-18 | The management structure of the highest decision-making body and the committees that are responsible for decision-making relating to social, environmental and economic impacts | AR: Corporate governance p.75-76;<br>Appendix 2: Explanation of the Materiality Matrix - CSR Governance p.192 |

| Indicator | Indicator | References |
|---|---|---|
| **Consultation with stakeholders** | | |
| 102-40 | List of stakeholders involved | AR: Appendix 4: Stakeholder dialogue p.196 |
| 102-41 | Employees subject to a CLA | AR: Appendix 5: HR data p.206 |
| 102-42 | Starting points for identification/selection of stakeholders | AR: Appendix 4: Stakeholder dialogue p.196 |
| 102-43 | How stakeholders are involved | AR: Appendix 4: Stakeholder dialogue p.196 |
| 102-44 | Key topics and issues that resulted from consultation with stakeholders | AR: Appendix 4: Stakeholder dialogue p.196 |
| **Reporting profile** | | |
| 102-45 | Companies in the annual financial statements that are not subject to this report | AR: Consolidated Financial Statements p.160 |
| 102-46 | Process for determining reporting content and specific demarcation | AR: Appendix 2: Explanation of the Materiality Matrix p.192 |
| 102-47 | Material issues identified | AR: Report of the Executive Board– Now and for generations to come – Materiality matrix p.50;<br>Appendix 2: Explanation of the Materiality Matrix p.192 |
| 102-48 | Consequences of a possible redefinition of information | AR: There have been no re-statements of information other then the periodic update of carbon emission factors |
| 102-49 | Significant changes compared to previous reporting periods | AR: There are no significant changes in the scope and boundary with respect to the previous reporting period. |
| 102-50 | Reporting period that the information provided relates to | 1 January through 31 December 2019. |
| 102-51 | Date of the most recent previous report | The last Integrated Annual Report was published in February 2019. |
| 102-52 | Reporting cycle | Annually |
| 102-53 | Contact for questions regarding the report | If you have any questions or comments, please send an e-mail to: corporate.communication@frieslandcampina.com. |
| 102-54 | GRI application level and GRI table | AR: This report has been prepared in accordance with the GRI Standards:<br>Core option. |
| 102-56 | Policy with respect to assurance | AR: Corporate Governance – Audit of financial reporting and role of internal auditor and external auditor p.79;<br>Independent auditor's report p.170;<br>Auditor's Assurance Report – p.180 |

| Indicator | Indicator | References |
|---|---|---|
| **Specifieke indicatoren** | | |
| **Carbon footprint (Standards aspect: Greenhouse gasses, Energy) - GRI Standard 305 (2016)** | | |
| 103-1 (2016) | Management approach: Why is this topic material? | AR: This is FrieslandCampina – Value Creation p.12;<br>Report of the Executive Board- Now and for generations to come p.48-55;<br>Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-2 (2016) | Management approach: How is this material topic managed? | AR: This is FrieslandCampina – Value Creation p.12;<br>Report of the Executive Board- Now and for generations to come p.48-55;<br>Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-3 (2016) | Management approach: How is this material topic evaluated? | AR: This is FrieslandCampina – Value Creation p.12;<br>Report of the Executive Board- Now and for generations to come p.48-55;<br>Appendix 2: Explanation of the Materiality Matrix p.192 |
| 305-1 | Direct greenhouse gas emissions (Scope 1) | AR: Key Figures 2019 p.8;<br>Appendix 1: Sustainability Goals 2019 p.191;<br>Report of the Executive Board– Now and for generations to come – Now and for generations to come p.49 |
| 305-2 | Indirect greenhouse gas emissions (Scope 2) | AR: Key Figures 2019 p.8;<br>Appendix 1: Sustainability Goals 2019 p.191;<br>Report of the Executive Board– Now and for generations to come – Now and for generations to come p.49 |
| **Innovation** | | |
| 103-1 (2016) | Management approach: Why is this topic material? | AR: Report of the Executive Board- Better nutrition – Innovation p.28; Report of the Executive Board– Now and for generations to come – Materiality matrix p.50;<br>Report of the Executive Board- Now and for generations to come – More green electricity and energy efficiency in production and transport p.52;<br>Appendix 1 – Explanation of the Materiality Matrix p.192 |
| 103-2 (2016) | Management approach: How is this material topic managed? | AR: Report of the Executive Board- Better nutrition – Innovation p.28; Report of the Executive Board– Now and for generations to come – Materiality matrix p.50;<br>Report of the Executive Board- Now and for generations to come – More green electricity and energy efficiency in production and transport p.52;<br>Appendix 1 – Explanation of the Materiality Matrix p.192 |

| Indicator | Indicator | References |
|---|---|---|
| 103-3 (2016) | Management approach: How is this material topic evaluated? | AR: Report of the Executive Board- Better nutrition – Innovation p.28; Report of the Executive Board– Now and for generations to come – Materiality matrix p.50; Report of the Executive Board- Now and for generations to come – More green electricity and energy efficiency in production and transport p.52; Appendix 1 – Explanation of the Materiality Matrix p.192 |
| Own indicator | Investments in research & development activities | AR: Report of the Executive Board- Better nutrition – Innovation p.28 |
| **Milk price** | | |
| 103-1 (2016) | Management approach: Why is this topic material? | AR: This is FrieslandCampina – Value Creation p.12; Report of the Executive Board– Good living for our farmers p.34 Report of the Executive Board– Now and for generations to come – Materiality matrix p.50; Overviews – Milk Price Overview p.185 Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-2 (2016) | Management approach: How is this material topic managed? | AR: This is FrieslandCampina – Value Creation p.12; Report of the Executive Board– Good living for our farmers p.34 Report of the Executive Board– Now and for generations to come – Materiality matrix p.50; Overviews – Milk Price Overview p.185 Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-3 (2016) | Management approach: How is this material topic evaluated? | AR: This is FrieslandCampina – Value Creation p.12; Report of the Executive Board– Good living for our farmers p.34 Report of the Executive Board– Now and for generations to come – Materiality matrix p.50; Overviews – Milk Price Overview p.185 Appendix 2: Explanation of the Materiality Matrix p.192 |
| Own indicator | Milk price | AR: Report of the Executive Board– Good living for our farmers – Good living for our farmers p.35 |

| Indicator | Indicator | References |
|---|---|---|
| **Nature & Biodiversity (Standards aspect: biodiversity) - GRI Standard 304 (2016)** | | |
| 103-1 (2016) | Management approach: Why is this topic material? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board- Now and for generations to come p.48-57; Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-2 (2016) | Management approach: How is this material topic managed? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board- Now and for generations to come p.48-57; Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-3 (2016) | Management approach: How is this material topic evaluated? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board- Now and for generations to come p.48-57; Appendix 2: Explanation of the Materiality Matrix p.192 |
| Own indicator | Sustainable agricultural raw materials | AR: Report of the Executive Board- Now and for generations to come - Sustainable procurement of agricultural raw materials p.53 |
| Own indicator | Number of member dairy farmers using the biodiversity monitor | AR: Report of the Executive Board- Now and for generations to come - Biodiversity p.57 |
| Own indicator | Active nature and landscape management by dairy farms | AR: Report of the Executive Board- Now and for generations to come - Biodiversity p.57 |
| **healthy products (Standards, aspect: Healthy users)** | | |
| 103-1 (2016) | Management approach: Why is this topic material? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board - Better nutrition p.26; Report of the Executive Board - Now and for generations to come - Materiality matrix p.50; Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-2 (2016) | Management approach: How is this material topic managed? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board - Better nutrition p.26; Report of the Executive Board - Now and for generations to come - Materiality matrix p.50; Appendix 2: Explanation of the Materiality Matrix p.192 |
| 103-3 (2016) | Management approach: How is this material topic evaluated? | AR: This is FrieslandCampina - Value Creation p.12; Report of the Executive Board - Better nutrition p.26; Report of the Executive Board - Now and for generations to come - Materiality matrix p.50; Appendix 2: Explanation of the Materiality Matrix p.192 |
| Own indicator | Product composition | AR: Key Figures 2019 p.8; Report of the Executive Board - Better nutrition p.27; Appendix 1: Sustainability Goals 2019 p.191; |
| Own indicator | Balanced product range | Report of the Executive Board- Better nutrition p.27; |

# Stakeholder Dialogue

FrieslandCampina is continuously in dialogue with a wide range of stakeholders with diverging interests. These discussions take place by employees at all levels within the organisation and often form part of their daily work. The table below provides an overview of the stakeholders with which FrieslandCampina maintained contact in 2019, the subjects of discussion and the actions that arose from this.

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| **Non-governmental organisations (NGOs) and interest groups** | | |
| Netherlands Dairy Organisation (NZO) | As board member, discussed a wide range of topics affecting the sector, ranging from the CLA to sustainability, quality matters, and nutrition and health. | The adoption of the new NZO vision and the associated implementation agenda, among other things. |
| Duurzame Zuivelketen (Sustainable Dairy Chain, DZK) | Discussed matters relating to climate and energy, animal health and animal welfare, pasture grazing, biodiversity and the environment. | Among other things, established the objectives for the Duurzame Zuivelketen (Sustainable Dairy Chain (DZK) for 2030, which at the same time constitute the implementation agenda for making the dairy sector more sustainable in the context of the Minister's Circular Agriculture vision. |
| Global Dairy Platform (GDP) | Cooperation with other dairy companies, associations and academia to demonstrate and communicate the role of dairy in sustainable agriculture – in relation to the SDGs. | Plan prepared to realise this within the partnership. |
| World Wide Fund for Nature (WWF) | Engaged in consultations concerning the creation of the Biodiversity Monitor Foundation and the definition of criteria for various components of the Biodiversity Monitor and consultation on the Biodiversity Delta Plan. | The Biodiversity Monitor is used in various areas of the Netherlands, as a result of which dairy farmers receive additional compensation for their added efforts. |
| Nature Reserves | Cooperation in a number of specific areas with additional attention devoted to nature and landscape management, meadow birds and/or herb-rich grasslands. | In a number of small areas a group of dairy farmers is effectively working together.<br>Nature reserves as partner for the On the Way to PlanetProof market concept. |
| Vogelbescherming (Protection of Birds) | Initiatives to enable land managers and NGOs to support dairy farmers in actively managing the bird population in certain areas of the Netherlands. | Creation of the Strengthening Meadow Bird Management fund in cooperation with BoerenNatuur, as well as cooperating on the creation of the Strengthening Meadow Bird Regions Foundation. |
| Solidaridad | Consultation concerning options for additional support for the sustainable cocoa programme. | The governments of Ghana and the Ivory Coast are initiating the so-called Living Income Differential designed to improve the position of local farmers. This will first be evaluated before deciding on an expansion of our programme. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Stichting Natuur & Milieu (Nature & Environment Foundation) | On behalf of NZO, consultation about the contents of the final agreement of the Climate Round Table for Agriculture and Land Use, and consultation in the context of the scenario study concerning the future of agriculture in the Netherlands. | The Climate Agreement<br><br>Scenario Study |
| Greenpeace | On behalf of NZO, consultation about the contents of the final agreement of the Climate Round Table for Agriculture and Land Use.<br><br>From FrieslandCampina's perspective, consultation on the policy concerning the purchase of palm oil. | The Climate Agreement<br><br>Made elaborate information available on website about the purchase and suppliers of palm oil. |
| Dierenbescherming (Animal Protection) | Consultation concerning the definition of new objectives for the Sustainable Dairy Chain (see DZK) and consultation about an approach for developing a system that, in addition to registering the dairy farms that apply pasture grazing, also registers the number of cows that graze outdoors. | Established Sustainable Dairy Chain objectives (see DZK).<br><br>Agreement about identifying the number of cows that grazes outdoors. |
| Agriterra | Deployment of FrieslandCampina employees for the purpose of professionalising customers of Agriterra/dairy and other farming cooperatives in various parts of the world. | Deployment of 16 employees and 4 member dairy farmers of FrieslandCampina during 15 expert missions to Africa and Asia.<br><br>Cooperation with Agriterra Vietnam in the context of the FrieslandCampina Academic Potential Programme. |
| Circular Economy | What is circular dairy farming and a circular dairy farming sector? How do we achieve this? | A number of paths were outlined that illustrate what a circular dairy farming and a circular dairy farming sector might be like; this is the subject of experimentation. |
| Dutch Sustainable Growth Coalition | How do we create sustainable growth and how do we continue to be a frontrunner internationally in this domain? | New earnings models are being created and scaled up. Implemented project relating to Clean Ocean Shipping and relevant expertise is being shared relating to sustainable packaging and plastics. |
| Dutch Biorefinery Cluster | More fully valorising the economic value of biomass in a sustainable way by linking knowledge, skills and resources through open innovation. | Campaign to stimulate government and the business community to take more effective steps towards the circular economy. |
| JOGG | Support for lifestyle education programmes. | The platform Everyone Fit at School was implemented. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Food Education Platform | Support for educational programmes about healthy and sustainable eating at primary schools. | Taste lessons were improved where necessary and a new Taste Mission was developed. |
| Platform Sterke Botten (Strong Bones Platform) | Focusing attention on the importance of strong bones. | FrieslandCampina is a partner in the Strong Bones Platform. One of the activities of this platform is the organisation of the 'Jump for your bones' event for parents and children. |
| CORPUS Reis door de Mens (Journey through Man) | Disseminating knowledge and information about the experience of keeping the body healthy, exercising and healthy eating and the role played by dairy in this respect. | An interactive and educational component about the role of dairy in health. |
| Access to Nutrition Foundation | Policy, management system and publication relating to the marketing of breast milk substitutes (BMS). | Analysis of the report concerning the continuous improvement of internal processes and results. Input about the future use of the index methodology. |
| **Trade and Industrial Associations** | | |
| Dutch Food Industry Federation (FNLI) | Development of web files for the Netherlands Food and Consumer Product Safety Authority (NVWA) concerning labelling and additives. | Input was provided via membership in the FNLI. |
| International Dairy Federation (IDF) | Discussions within Codex (CCFL / CCNFSDU / CCFA) in the area of labelling, additives, nutrient profiles and front-of-pack labelling. | Input was provided via national membership in the IDF. |
| European Dairy Association (EDA) | Discussions in Europe relating to labelling, hygiene and additives. | Input was provided via NZO's national membership in the EDA. |
| Netherlands Dairy Organisation (NZO) | Dairy legislation, labelling, nutrition, contaminants, hygiene and quality. | Contribution to discussions with the objective of improving Dutch dairy products in the broadest sense. |
| International Special Dietary Foods Industries (ISDI) | Developments within Codex (CCNFSDU/CCFL/CCFA) relating to various topics such as the review of the Codex standard for follow-on formula, labelling, additives, reference intake (NRVs). | Input was provided via the national membership in ISDI, for example via participation in the preliminary discussions with the Ministry of Ministry of Health, Welfare and Sport (VWS) about the CCNFSDU's agenda and topics. |
| Specialised Nutrition Europe (SNE) | Review of EU requirements for vitamin D in infant nutrition. | Input concerning the technical assessment of the feasibility and applicability of the proposed new requirements. |
| Association of Dutch Infant and Dietetic Foods Industries (VNFKD) | Developments relating to infant nutrition in the Netherlands, such as self-regulation (review of the code of conduct for infant nutrition advertising), legal status of toddler milk. | Input was provided via membership in the VNFKD. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Dairy Sustainable Framework | Cooperation with global players in the dairy industry for a universal approach to making the sector and dairy products sustainable, for example through means of the SAI platform. | Launch of a global B2B approach designed to facilitate the efficient procurement of sustainable dairy products and to demonstrate measurable progress in the area of sustainability priorities. |
| **Wetenschap** | | |
| University of Kebangsaan, Malaysia | Nutritional status and lifestyle habits of children. Design and set-up of the SEANUTS survey. | Started with data collection as a basis for acquiring insight into how we can improve the nutritional status of children. |
| University of Mahidol, Thailand | Nutritional status and lifestyle habits of children. Design and set-up of the SEANUTS survey. | Started with data collection as a basis for acquiring insight into how we can improve the nutritional status of children. |
| University of Indonesia | Nutritional status and lifestyle habits of children. Design and set-up of the SEANUTS survey. | Started with data collection as a basis for acquiring insight into how we can improve the nutritional status of children. |
| National Institute of Nutrition, Vietnam | Nutritional status and lifestyle habits of children. Design and set-up of the SEANUTS survey. | Started with data collection as a basis for acquiring insight into how we can improve the nutritional status of children. |
| University of Harokopio, Greece | Milk fat for infant nutrition. | Conducted nutritional research, whose results were published in a scientific journal. |
| Chinese University of Hongkong | Nutritional status of the elderly. | Completed nutritional research, whose results were published in scientific journals. |
| Chinese Institute for Nutritional Science and Technology | Education programme for young scientists, distribution of knowledge about nutrition and health, and about health and lifestyle. | Participation in conferences and workshops; exchange programme for young scientists. |
| FrieslandCampina Institute Independent External Expert Board | Informing and testing of FrieslandCampina's nutrition policy, particular in the area of 'better products'. | Positive response to the 'better products' programme. |
| Wageningen Universiteit & Research (WUR) | Improving the reliability of sustainability data, for example in the Kringloopwijzer [a livestock life cycle management guide].<br>Research into soil carbon sequestration, into the effect of manure digestion on manure emissions and into feed strategies.<br>Research into lowering the sugar content of products. | Improved calculations concerning the Kringloopwijzer, enabling dairy farmers to better manage the mineral recycling loop.<br>Focused innovation agenda on lowering ecological footprint.<br>WUR tool for calculating sugar substitutes; no added value for specific product demands. |
| Utrecht University | Research into the role of grasslands in biodiversity. | Initiation of partnership. |
| Top Institute for Food & Nutrition | Progress of Regenerative Farming project. | Focused innovation agenda on lowering ecological footprint. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Knowledge institutes, government and companies in the Top Agri & Food sector | Exploration of innovations designed to lower the ecological footprint on farms. | Focused innovation agenda on lowering ecological footprint. |
| Institute for Sustainable Process Technology (ISPT), Twente University, Université Catholique de Louvain | Design of a new type of dryer with lower energy consumption. | 100 kg/h pilot plant has been built and is ready for studies into energy consumption and product quality. |
| ISPT, Eindhoven University of Technology | Fundamental research into the atomisation of dairy products in spray dryers. | Research into atomisation at a higher concentration of nutrition in order to achieve energy savings. |
| ISPT, Wageningen UR | Energy efficient processing of milk and whey. | Research into membrane cascades in order to specifically achieve lower energy consumption. |
| ISPT, Eindhoven University of Technology, Radboud University | Process optimisation by applying new data science strategies, sensor technology and statistical/mechanical models. | Savings in energy and raw materials through better process control and first-time-right production. |
| **Employees** | | |
| | Employee Satisfaction<br>Health and safety of employees.<br>Compass and Speak-Up – good business conduct and an open culture in which employees feel free to express themselves.<br>Increase speed and sharpness (winner's mentality) in the company.<br>Sustainability Community to mobilise employees in support of sustainability.<br>Performance Management process (in consultation with the Central Works Council).<br>Give transformation and development programmes a boost. | Conducted Over2You survey among all employees.<br>Ongoing communications programme on work safety.<br>E-learnings and a campaign to focus attention on Speak-Up.<br>Further rollout and monitoring of WIN-WIN programme.<br>Presentation of global WIN-WIN award to Affordable Nutrition Nigeria team.<br>Monthly Sustainability Community sessions and communication relating to sustainability.<br>Redesigned the Performance Management process for all jobs in the Hay scales, which will be implemented in 2020.<br>Nourishing Growth and Lead to Win development programmes for management and high potentials, and senior management, respectively.<br>New Employer Value Proposition and career website to be implemented at the beginning of 2020. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| **Zuivelcoöperatie FrieslandCampina U.A.** | | |
| | Adjustment of the Foqus Planet quality and sustainability programme.<br>Three-yearly evaluation of milk price regulation (and other regulations and rules).<br>Generation of green electricity and installation of solar panels on farms.<br>Continued development of special supplements.<br>Implementation of Balanced Growth.<br>Continuous improvement of the results achieved at the farm in relation to Climate and Biodiversity.<br>Development of internal market for free member bonds.<br>Current developments and trends relating to FrieslandCampina. | Approval of adjustment of the Foqus planet programme, including remuneration of results achieved at the farm level in relation to Climate and Biodiversity.<br>Following in-depth discussions with members throughout the country, the Members' Council approved the proposal for adjusting the milk price regulation, including the calculation of the guaranteed price, and a legal restructuring of FrieslandCampina.<br>Expansion of the 'On the way to PlanetProof' milk stream and the VLOG (non-GMO) milk stream.<br>Establish and provide information about the collective and individual reference volume.<br>Provide information about and activate, for example in the Winning with Climate & Nature workshops.<br>Include members in the development of demand and supply on the internal market in relation to financing the company.<br>Two semi-annual meetings in which stakeholders from the dairy sector who also maintain direct contact with members, are informed about current developments concerning FrieslandCampina. |
| **Government bodies and local authorities** | | |
| The Clean and Economic Agricultural Sectors Covenant, and the Sustainable Livestock Farming Implementation Agenda | Discuss progress of goals adopted from the Clean and Economic Agricultural Sectors Covenant, and the Sustainable Livestock Farming Implementation Agenda. | FrieslandCampina complies with the objectives agreed upon in accordance with the long-term agreements on energy efficiency (MJA3 agreement). |
| Permit issuing institutions | Discussion of progress of the individual environmental permits.<br>Prevention education programmes. | Issue of permits.<br>If necessary, adjust procedures. |
| Regulatory Bodies | Consultation concerning quality-related opportunities for member dairy farms, production facilities and export. | If necessary, improve procedures.<br>Resolve export-related issues. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Ministry of Health, Welfare and Sport (VWS) | Prevention Agreement and FrieslandCampina's role in addressing diseases of affluence, malnutrition and food security: labelling, education, marketing aimed at children, reformulation (sugar, salt and fat reduction). | Input was provided about the reformulation, labelling, nutrition logos, marketing aimed at children and education programmes in the Netherlands relating to the Prevention Agreement. |
| Ministry of Agriculture, Nature and Food Quality (LNV) | School milk. | Discussions were held with the LNV via the NZO, concerning the current results of the school milk regulation. |
| Ministry of Agriculture Indonesia | Providing dairy farmers with knowledge of GDFP to increase their welfare and quality of fresh milk and support the government to increase the national fresh milk production. | The engagement and endorsement from the Ministry of Agriculture for Frisian Flag Indonesia is found in various dairy development programmes, such as the educational programmes via radios conducted bi-weekly, Farmer2Farmer trainings and also the Dairy Village as the DDP Centre of Knowledge reaching out to 17,000 dairy farmer under 15 local dairy cooperatives. |
| Ministry of Health, Malaysia | Nutrition | Agreements about communicating the importance of milk and FC's contribution over the last 55 years in encouraging Malays to drink more milk. |
| Ministry of Veterinarian Services, Malaysia | DDP | Presentation of best practices in support of the Malaysian Ministry of Veterinarian Services' aim of improving dairy agriculture in Malaysia and positioning a Malaysian OpCo as a smart partner. |
| Member of Parliament (Malaysia) | Our purpose of nourishing the nation targeting underprivileged families living in the urban area to enable these families to have access to nutritious products. | Partnership between DLMI and Member of Parliament to launch a RM1 pack (also known as Rakyat (People's) Pack at a People's Housing Project (PPR) in Kampung Limau, Pantai Dalam in Kuala Lumpur via Program Cakna Susu. |
| Office of the Prime Minister, Pakistan | Nutrition | Agreements concerning the modernisation of the livestock sector and the importance of scaling up nutrition. |
| Punjab Food Authority, Pakistan | Food Safety. | Briefing concerning the safety of milk and pasteurisation legislation. |
| Philippine Navy Civil Military Operations, Philippines | Sustainability | Activities in the area of planting trees. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| Department of Education in the Philippines | Addressing the problems of malnutrition in school children through education and nutrition | Alaska Milk and DepEd's Adopt-a-School programme aids in the upgrading and modernizing of public schools. Through this program, Alaska Milk looks after the educational and nutritional needs of schoolchildren, beginning with those from the country's 20 poorest provinces. |
| Health Promotion Board, Singapore | Nutrition | Logo concerning healthier choices. |
| Ministry of Agriculture and Cooperative in Thailand | Sharing expert knowledge of Dutch dairy farming to increase quality of milk with Thai farmers | Farmer2Farmer missions to Thailand by Dutch member farmers from FrieslandCampina have trained and advised their peers to support them to produce more and better quality milk, enabling a better living. |
| Ministry of Natural Resources and Environment (MoNRE) Vietnam | Cooperation in addressing the fundamental problems of solid waste in general, and plastic waste | FrieslandCampina Vietnam, as one of the founding members of the Packaging Recycling Organization Vietnam (PRO Vietnam) signed an MoU in Hanoi on driving Vietnam's circular economy through activities reducing, segregating, collecting, and recycling waste. |
| **Suppliers** | | |
| | Criteria for sustainable agricultural raw materials – in line with FrieslandCampina's aim to only purchase agricultural raw materials and paper packaging acquired from fully sustainably managed sources in 2020. | FrieslandCampina cooperates with its suppliers in developing plans for sustainability in the procurement of agricultural raw materials. |
| | Purchase and generation of green electricity and green gas. | FrieslandCampina has frequent contact with significant suppliers. |
| | Marketing focused on children. | Through membership in the WWF and the EU Pledge, solutions were explored in consultation with Google and YouTube in order to comply with the rules of the EU Pledge. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| **Nutrition and health experts** | | |
| Dutch Association of Dieticians (NVD) | Development of accredited educational materials for dieticians. | Completed survey of knowledge, attitude and conduct of dieticians in relation to sustainable nutrition. Developed sustainable nutrition e-learning for dieticians and accredited the e-learning through the ADAP |
| British Dietetic Association (BDA) | Development of accredited educational materials for dieticians. | Developed sustainable nutrition e-learning for dieticians and accredited the e-learning through the BDA. |
| Singapore Paediatric Society (SPS) | Organisation of accredited schooling for paediatricians. | Organisation of the 'Dietary Management for Paediatric GI Disorders – An Update on Complementary Feeding' conference (April 2019 in Singapore) supported by SPS. |
| National Paediatric Association Vietnam | Organisation of accredited schooling for paediatricians. | Organisation of 4th FrieslandCampina Institute Asia Pacific Symposium (August 2019 in Vietnam) |
| Asian Conference on Nutrition | Organisation of accredited schooling for nutritional experts and dieticians. | Organisation of the 'Role of protein in earlier and later life' session during the Asian Conference on Nutrition (August 2019 in Indonesia). |
| MSAI, Malaysian Paediatric Association and Obstetrical and Gynaecological Society of Malaysia | Organisation of accredited schooling for obstetricians. | Organisation of the 'Crack the Code, Navigate The Science' conference (October 2019 in Malaysia) supported by the associations. |
| Dutch Association of Paediatricians (AJN) | Organisation of accredited schooling for paediatricians. | Jong geleerd is oud gedaan [what is learned in the cradle is carried to the tomb] Programme Committee conference (Netherlands, November 2019) |
| Children's Healthcare subgroup, Chinese Medical Doctors Association (CMDA) | Cooperation in organising scientific conference. | Official launch of the FrieslandCampina Institute China (April 2019 in China) in cooperation with and during the Dairy Industry Symposium of the 2019 Maternal and Children's Nutrition Forum organised by the CMDA. |

| Stakeholders | Topics of Discussion | Actions and Outcomes |
|---|---|---|
| IDAI; PDGMI; IDI; IBI; POGI; PERGASI; IAKMI | Development of scientific multidisciplinary reference work for undernourishment. | Organised experts meeting (April 2019, Indonesia). Outcome of meeting: together with 7 professional associations started work on developing the reference work. |
| FrieslandCampina Institute Independent External Expert Board | Panel of international multidisciplinary experts in the area of nutrition and undernourishment, population health and conduct, that critically monitors the FrieslandCampina Institute's strategy and activities. | First meeting of FrieslandCampina Institute Independent External Board (June 2019). The next meeting is scheduled for June 2020. |

# HR data

## Senior management diversity

| | |
|---|---|
| Female | 25.9% |
| Male | 74.1% |
| Total | 100.0% |

## Employment

| | |
|---|---|
| Part-time | 8.4% |
| Fulltime | 91.6% |
| Total | 100.0% |

## Type of contract

| | |
|---|---|
| Temporary | 10.2% |
| Permanent | 89.8% |
| Total | 100.0% |

## Part-time versus fulltime subdivided by gender

| | | |
|---|---|---|
| Part-time | Female | 5.5% |
| | Male | 2.9% |
| Fulltime | Female | 22.9% |
| | Male | 68.7% |
| Total | | 100.0% |

## Employees covered by collective labour agreement (CLA)

| | |
|---|---|
| Not covered by CLA | 32.9% |
| Covered by CLA | 67.1% |
| Total | 100.0% |

## Temporary versus permanent subdivided by gender and region

| | | | |
|---|---|---|---|
| **Temporary** | Female | Africa and Middle East | 0.0% |
| | | Asia and Oceania | 2.9% |
| | | Germany | 0.1% |
| | | North and South America | 0.0% |
| | | Remainder of Europe | 0.4% |
| | | Netherlands | 1.0% |
| | Male | Africa and Middle East | 0.1% |
| | | Asia and Oceania | 3.7% |
| | | Germany | 0.3% |
| | | North and South America | 0.0% |
| | | Remainder of Europe | 0.3% |
| | | Netherlands | 1.4% |
| **Permanent** | Female | Africa and Middle East | 0.6% |
| | | Asia and Oceania | 7.2% |
| | | Germany | 1.6% |
| | | North and South America | 0.3% |
| | | Remainder of Europe | 6.3% |
| | | Netherlands | 8.0% |
| | Male | Africa and Middle East | 3.5% |
| | | Asia and Oceania | 23.9% |
| | | Germany | 4.2% |
| | | North and South America | 0.5% |
| | | Remainder of Europe | 9.9% |
| | | Netherlands | 23.8% |
| Total | | | 100.0% |

# Glossary

### Accident ratio
The ratio of the total number of accidents resulting in absence (at least one calendar day of lost time, excluding the day of the accident), substitute work or medical treatment by an emergency service or family doctor per 200,000 hours worked. This concerns work-related accidents. The accident ratio is calculated as follows: total number of accidents / total number of hours worked x 200,000. All FrieslandCampina employees and subcontractors working under FrieslandCampina's supervision for entities in which FrieslandCampina has a controlling interest for at least 12 months fall within the scope of this indicator.

### Balanced product range
The subdivision of the product groups is determined on the basis of the product type (for example, milk product, cheese, butter or meat substitute) and its place in daily nutrition (basic food products for daily consumption, self-indulgent products for occasional consumption or products for a specific target group). Each year, the balance in FrieslandCampina's consumer product range is expressed in terms of basic nutritional products for daily consumption and self-indulgent products meant for occasional consumption as a percentage of the total volume of consumer products sold. Also see FrieslandCampina's website.

### Climate-neutral growth-related greenhouse gas emissions
The net greenhouse gas emissions of FrieslandCampina minus the compensation by purchasing Guarantees of Origin. The net greenhouse gas emissions concern the emissions at dairy farms, the transport of milk from farms to production facilities, and transport between production facilities and customers, based on the Greenhouse Gas protocol. The greenhouse gas emissions are administratively compensated. The reported greenhouse gas emissions do not include the greenhouse gas emissions from subsidiaries acquired after 2010.

### Dairy Development Programme (DDP) countries
FrieslandCampina has almost 150 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farms in Asia, Africa and Eastern Europe to further develop their farms through the Dairy Development Programme (DDP). The DDP supports local dairy farmers (particularly small farmers), primarily in Indonesia, Thailand, Vietnam, Malaysia, China, Russia, Romania, Nigeria and Pakistan, to improve the quality of their milk, increase the productivity per cow and gain access to the market.

### Energy consumption
Total net energy consumption in Giga Joule per total production volume in tons. External registration of gas, oil, etc. usage with calibrated equipment is the basis for the amounts consumed. If steam, gas, electricity is bought but sold to other parties, this amountis subtracted from the total amount bought. If steam is delivered to third parties the energy content (1 ton of steam = 2.5 GJ) is administered as a negative consumption. If a process requires less energy to achieve the same goal, it is judged to be more efficient. Acquisitions are included in the reported energy consumption figures after a full calendar year.

### Good Dairy Farming Practices
The percentage of dairy farms that at a minimum scores 'good' in terms of the Good Dairy Farming Practices in Dairy Development Programme countries (see above). The Good Dairy Farming Practices are based on the guidelines developed by the Food and Agricultural Organization (FAO). Each year, a questionnaire is used to conduct a survey among a research group of approximately 200 farmers in Indonesia, Vietnam, Thailand and Malaysia to determine the percentage of farmers that scores 'good' in relation to the Good Dairy Farming Practices. This questionnaire differs by country depending on the maturity level of the local dairy sector.

### Green electricity
Electricity generated from renewable energy sources, such as wind, solar energy, co-fermentation of biomass, manure fermentation, etc.

### Guarantees of Origin/Green Certificates
Guarantees of Origin or Green Certificates are certificates issued for each mWh of electricity from renewable energy sources: wind, solar, co-fermentation of biomass, and manure fermentation. FrieslandCampina buys such certificates to guarantee that the electricity used in FrieslandCampina production facilities is generated from renewable sources.

### Local farmers participating in training in DDP countries
The number of dairy farmers that participated in a training programme, focused on improving knowledge and skills in the DDP countries: Malaysia, Indonesia, Thailand, Nigeria Pakistan, Romania and Vietnam. The number of dairy farmers trained by FrieslandCampina China and FrieslandCampina Russia are not yet included, because these programmes are not yet fully integrated into the system used to record performance in terms of the Key Performance Indicators.

### Partial pasture grazing
Allowing a minimum of 25 percent of all cows (not only lactating cows, but also all other cattle) on a dairy farm can graze in a pasture with adequate grass supply for at least 120 days per calendar year, such that the animals can maintain their natural grazing behavior.

### Pasture grazing
All eligible lactating cows on a dairy farm can graze in a pasture with adequate grass supply, such that the animals can maintain their natural grazing behavior, for at least 120 days per calendar year, at least 6 hours per day (or at least 720 hours per calendar year).

### Product composition
The share of FrieslandCampina's product range that complies with the criteria for elements such as protein, calories, sugar, salt and fat, as described in the FrieslandCampina Global Nutritional Standards, expressed as a percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards. Also see FrieslandCampina's website.

### Recyclable packaging
To define recyclability, FrieslandCampina builds on the definition of the Ellen MacArthur Foundation in the context of the New Plastics Economy Global Commitment (signed by FrieslandCampina). Recyclable indicates that packaging can be recycled into materials that replace virgin materials. As such, the design of the packaging cannot be a barrier for recycling. Hence, materials without further use cycles (plastic-to-road), waste to energy and waste to fuel are excluded. Moreover, in line with the Ellen MacArthur Foundation, recyclability means that a system for recycling exists in practice and at scale. Packaging was reviewed at the component level for the purpose of this KPI.

### RTRS
The cattle feed (with soya meal) that Dutch member dairy farmers purchase comes from sustainable sources and is certified according to the Round Table on Responsible Soy (RTRS) or comparable criteria.

### Self-generated renewables
Renewables generated at member dairy farms or produced on plants. Included are gas and electricity produced out of manure, solar and wind energy.

### Sustainable agricultural raw materials
Raw materials with globally recognized sustainability certificates or products for which a plan for sustainable development is created in cooperation with suppliers.

### Water consumption
Water withdrawal from well/ground water and tab water/city grid. The water consumption is measured per ton of processed product, i.e. the total net water consumption in cubic meter per total production volume in tons versus the 2018 baseline.

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