



FrieslandCampina 
nourishing by nature

2018

ANNUAL MAGAZINE

A YEAR OF
TRANSFORMATION

*Serve the
24/7 consumer
and customer*

**Lower revenue
and profit,
higher cash flow**

2020 pasture
grazing target
realised in 2018

*Connection:
the core of
cooperative
enterprise*

NEW STRATEGY

Our Purpose, Our Plan

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COLOPHON

This annual magazine is a publication from Corporate Communication FrieslandCampina Amersfoort.

Design: Villa Grafica, Studio Dyk
Photography: Ingolf Hatz, RIJK IN BEELD, Jeroen Bouman, Nosawa & Co., Marten Aukes
Text contributions: EMMA
Sustainability: Sustainalize
Translation: Vertaalbureau Bothof
With thanks to: Deutsche Bahn AG, Tergooi Ziekenhuis, Bäckerei Kistenpfennig, Jumbo Supermarkt van Wincoop, Miuraya, Agriterra

Introduction

In this Annual Magazine, FrieslandCampina presents the key developments and results for 2018.

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

Both reports are available at www.frieslandcampina.com.

February 2019

Cover: To serve the 24/7 consumer. For example, with Landliebe-based beverages that are easy to take along. How do we anticipate the world of the 24/7 consumer? Read more on page 28.



Foreword

Dear Reader,

In this magazine you will find an overview of the results of Royal FrieslandCampina N.V. FrieslandCampina for the first time reports its results in integrated form. This means that we have combined the financial results and our results relating to sustainability in this magazine. This method of reporting shows that sustainability has been embedded into the company's business operations and on member dairy farms. Consumers and customers throughout the world are becoming increasingly aware when it comes to purchasing sustainably produced foods or ingredients. The production of dairy places a burden on nature and the environment; in view of the future of our sector it is crucial that we limit this impact.

Change
For FrieslandCampina, 2018 first and foremost was a year of transformation, of change. The organisation and its management were drastically changed. The new strategy was given shape and substance in 2018 and was embraced and incorporated into the plans for the coming years by the management of all business groups. Winning in the market is the core message in this respect. We endeavour to achieve this by winning with nutrition, serving the 24/7 consumer and customer, leading with sustainability and elevating our essentials. More than ever we are focusing on consumers, customers and markets throughout the world. In 2017, it became clear that the company had to operate more competitively in order to improve its financial performance. A large-scale behaviour and culture programme was initiated to increase the company's speed and competitiveness. Obviously inspired by our purpose *nourishing by nature*. In the second half of 2018, we were reaping the initial benefits of the implemented changes.

Lower result
Last year, the FrieslandCampina milk price was 37.43 euros per 100 kilos of milk. This is inclusive of the guaranteed price, the performance premium, the issue of member bonds and other premiums. A guaranteed price of 36.05 euros per 100 kilos of milk was paid. The guaranteed price is the base amount FrieslandCampina pays its member dairy farmers per 100 kilos of milk. That price was 5.0 percent lower than in 2017. The value creation (combined performance premium and issue of member bonds) amounted to 0.59 euro per 100 kilos of milk, a 55.6 percent decline due to the lower operating profit. This lower operating profit, compared to 2017, was in part caused by an additional loss of over 100 million euro on basic dairy products. This was caused by the low basic dairy prices in comparison to the guaranteed price, especially in the first half of 2018. While butter quotations and cheese prices recovered in the second half of the year, they came under renewed pressure in the fourth quarter due to a decrease in milk fat quotations.

We were also adversely affected by the increased competition on the infant nutrition market in China and Hong Kong. By making additional investments in innovation, marketing, sales and distribution, FrieslandCampina managed to maintain its market positions in China and Hong Kong. The costs for the company's restructuring and the incidental charges relating to the announced closures of production facilities reduced the result by approximately 50 million euros. The level of value creation was less than satisfactory, however, in 2018, we created the conditions needed for achieving better results. For example, last year we managed to realise 85 million euros in cost savings.

Reversal in the second half of 2018
In the second half of 2018, the first positive results of the initiated transformation were evident. For example, in the second half of the year the volumes in all business groups increased by a total of 2.3 percent in comparison to the first half-year. The sale of cheese produced a positive result in the second half of the year. To strengthen our position in cheese, we completed four acquisitions in the second half of the year. In addition, a key processing agreement for the production of mozzarella was signed. Furthermore, the Consumer Dairy business group experienced significant improvement in growth, particularly in Asia.

Choices
During the past year, the company's and the cooperative's strategy converged and seamlessly fit together. The focus on sustainability, the anticipation of market demand by making use of different milk streams and balanced growth make it possible to successfully create value over the long term.

I am grateful to the member dairy farmers for their commitment and the choices they have made over the past year. I would also like to thank our employees for their effort and loyalty. Together we continue to build on FrieslandCampina in order to offer the world better nutrition, provide a good living for dairy farmers, now and for generations to come.

Hein Schumacher
Chief Executive Officer
Royal FrieslandCampina N.V.

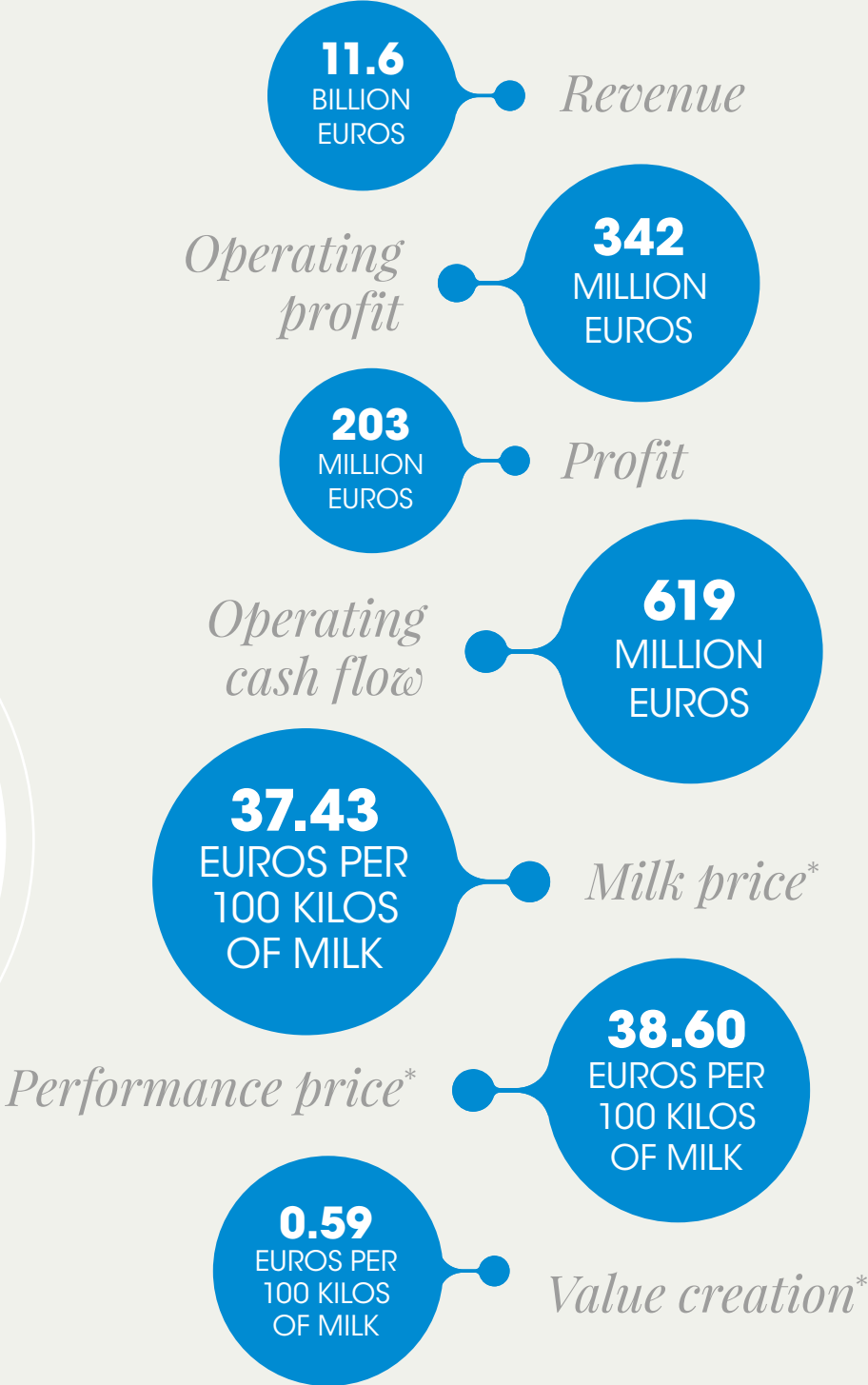
FRIESLANDCAMPINA
IN 2018:

Key figures

Better nutrition

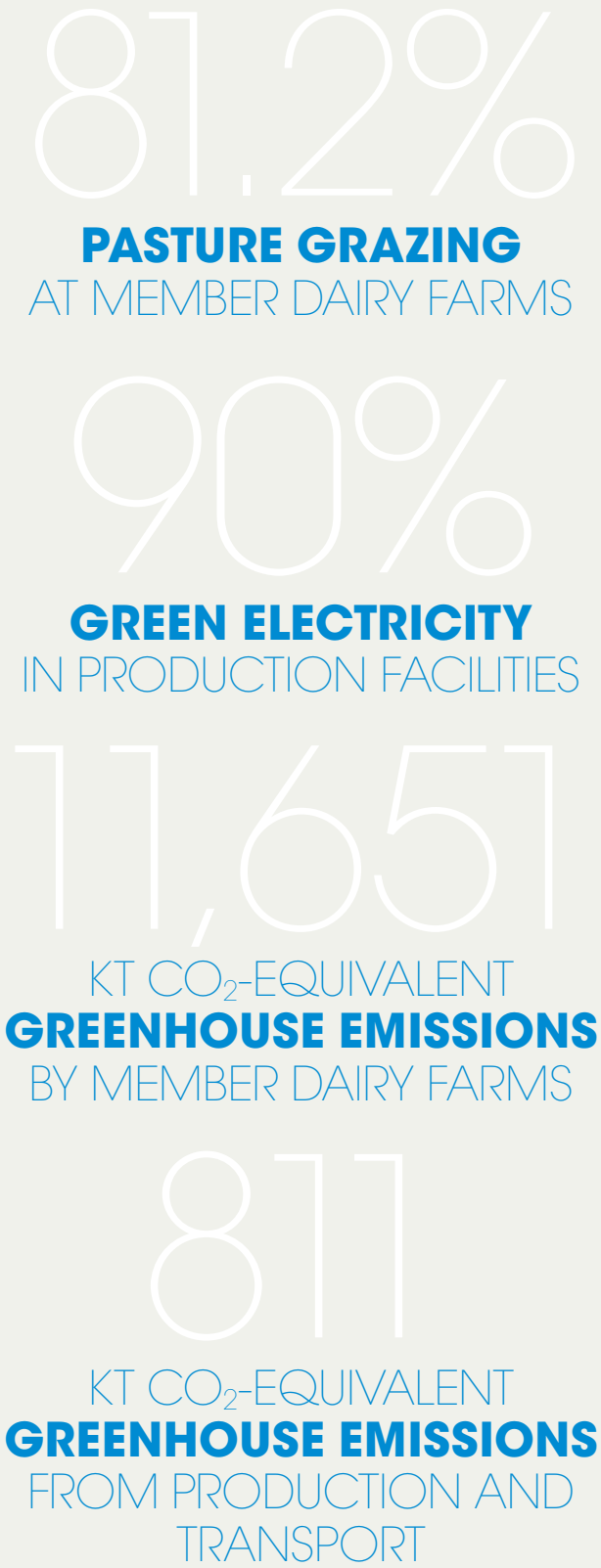


A good living for
our farmers



*for member dairy farmers

Now and for
generations to come



General



Purpose, vision and strategy

What does FrieslandCampina stand for? What determines our direction, our actions? The company operates on the basis of the purpose *nourishing by nature*. The cooperative's vision is *The Merits of Milk*. A strategy, including action plans, was developed on the basis of both of these visions, for the company – *Our Purpose, Our Plan* – as well as for the cooperative. Both reinforce each other on the road to a sustainable future.

nourishing by nature

BETTER NUTRITION



- Feeding the growing world population
- Optimising the nutritional value of dairy products
- Ensuring the availability of affordable nutrition in specific markets

A GOOD LIVING FOR OUR FARMERS



- An attractive cooperative for member dairy farmers
- Support for dairy farmers in Asia, Africa and Europe
- Offer prospects to young dairy farmers

NOW AND FOR GENERATIONS TO COME



- Invest in sustainable long-term growth
- Climate-neutral growth
- Reduce the use of scarce natural resources

CARE FOR ANIMALS AND NATURE



- Circular milk production
 - Animal and soil in balance
 - Leader in low climate impact
 - Energy-neutral production
- Well-cared for cows

VALUE FOR MEMBER FARMERS



- Market-oriented chain:
 - Balanced volumes
 - Profitable diversity and flexible milk streams
- New earnings models

OF VALUE WITHIN AND TO SOCIETY



- Producers of high-quality and responsible nutrition
- Connected with society
- Keepers of an attractive landscape with pasture grazing

Our Purpose, Our Plan: strategic themes

WIN WITH NUTRITION



Producing good and healthy dairy products is at the core of who we are and what we do. With our from grass to glass concept we provide our customers and consumers with a unique offering.

SERVE THE 24/7 CONSUMER AND CUSTOMER



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 and naturally for the right price.

LEAD WITH SUSTAINABILITY



FrieslandCampina and its dairy farmers aspire to build a leading position with sustainability and set the standard for a sustainable 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 will build profitable branded and unbranded cheese positions to shift milk away from unprofitable products. We will also increase our milk processing flexibility to enable us to create products that offer new opportunities on the market.

LEADER IN SUSTAINABILITY

- Significant increase in pasture grazing
- Scaling up of solar panels
- Following up on manure valorisation

FLEXIBLE MILK STREAMS

- Introduction of 'On our way to PlanetProof'
- Scaling up of VLOG (non-GMO) cheese
- Regional concepts

BALANCED GROWTH

- Basic principle: supply and demand in balance
- Measure designed to realise balanced growth

THE CORE OF COOPERATIVE ENTERPRISE:

Valorising milk together

In December 2018, the Members' Council of Zuivelcoöperatie FrieslandCampina made an important decision: it opted for the balanced growth of their milk volume. "The choice of a mature cooperative that keeps the future in mind. But also a difficult choice for a group of individual dairy farmers who were counting on higher growth. I think it is quite an accomplishment that we managed to come to this result in our meetings with member dairy farmers," Frans Keurentjes, Chairman of the cooperative's Board and Chairman of the Supervisory Board of FrieslandCampina observes.

A wet morning in December. Frans Keurentjes and Raoul Wouters are on location at the production facility in Bedum, just north of the Dutch city of Groningen. At this site 90 percent of the milk supplied by Frans Keurentjes' dairy farm is processed into cheese and ingredients for infant nutrition. Frans is meeting up with Raoul Wouters, Planner with FrieslandCampina's Trade, Valorisation and Allocation department in Amersfoort (the Netherlands). Raoul is a member of the team that forecasts the milk supply and allocates the milk to different production facilities. During weekends you will often find him in the fields of his parents' farm and he also often helps out on the farms in the village. Raoul highly values FrieslandCampina's cooperative

business model. "Our customers consider this important. A cooperative is reliable, solid and is there for the long term. This is valued. However, a cooperative has its benefits and drawbacks. There is tension between what the members want and what FrieslandCampina, as a company, is able to deliver. At the present time the company has set growth limits. We are forced to sell part of our milk volume at low returns. This is something you want to avoid. The company wants to realise the best possible returns with the milk, for the farmers. Of course, that's not easy when growth is being constrained. Whether this is due to the limitations imposed by the phosphate rights or FrieslandCampina's plans, there are sure to be many dairy farmers who will say they are given too little room for growth."



Frans Keurentjes
Chairman of the Cooperative Board and Chairman of the Supervisory Board.



Raoul Wouters
Planner with the Trade, Valorisation and Allocation department

THE COOPERATIVE

Valorising milk together: this is the core of our cooperative enterprise. You are committed and you carry joint responsibility. This is how it was when the first cooperative was founded in 1871 and it is still that way to this very day. But there is a major difference: at the end of the 19th century the cooperative's customer was the village shop. Today's customer can also be a consumer in China. "Due to the increase in scale, the connection is less intense," says Frans Keurentjes. "But that connection is still important. *The Merits of Milk* represents the recovery of the farmer's connection with the market."



“There is more speed within the organisation”

BALANCED GROWTH

Balanced growth means that the total milk volume grows in pace with market demand. The room for growth is determined each time for a period of two years on the basis of predicted global future growth. The market-based growth rate for 2019 and 2020 has been set at 1.5 percent. In addition, room for growth is created by farms that halt their operations, leave altogether or do not use all of their allocated reference volume. Members who supply more milk than their allotted volume allows are charged a fee of 10 euro cents per kilo milk on the additional milk supplied. For special milk streams, the market-based growth rate may be exceeded when there is a greater demand than the supply of raw milk for that particular milk stream.



Turning point

"That's definitely the case. The payback time for the investments made in a farm is twenty or thirty years. If you were counting on strong growth after 2015 then every limitation is one too many. We are at a turning point," Frans observes. "When the milk quota was abolished in 2015, the world changed. There was room for growth, but we also saw the emergence of environmental limits and the increasing influence of the political situation throughout the world. There were a multitude of things that had a major influence on milk prices. The merger was successful. We thought: everything will go by itself. Everyone wanted to join FrieslandCampina. More milk, more success for FrieslandCampina. But what do you do with the extra milk? Success reduces your sharpness: as a cooperative and as a company."

Raoul: "In 2015, there was no way you could talk about limiting growth. People were not receptive. It would have been difficult to explain that the quota was abolished, while

FrieslandCampina was suggesting we limit the supply. After all, it felt like a liberation." "Exactly", Frans agrees. "But we had to prepare ourselves to make some choices: what kind of company does FrieslandCampina want to be and are we capable of being? We developed a vision: *The Merits of Milk* (see text box, red). This not only means more financial value. No, it is also about what higher value means to members and consumers, such as our new sustainable dairy line: the milk that is allowed to carry the 'On the way to PlanetProof' label. This enables consumers to opt for more sustainable milk that meets high requirements relating to animal wellbeing, nature and climate. While the farmers that supply this milk receive a higher price for this milk, it also fits in with the way they wish to run their farm. And this applies to many more dairy farmers who create added value on the basis of the opportunities open to them within their particular environment."

"If you are a farmer who does not want to change anything, but only wants to produce

milk, things will become increasingly more difficult for you in the Netherlands," says Raoul. "Society and the political establishment are not willing to buy into this. There are many regulations relating to the environment and society that we must respect. Otherwise you will increasingly more often hit a brick wall."

Trust

"If we do not really take our environment and consumers seriously and fail to pursue a new course, we will lose our connection. Cynicism will never win the race. I am confident in the positive developments. When I look back on what has happened in the past year in the cooperative, as well as in the company, this gives me confidence. FrieslandCampina's financial results were less than desirable in 2018. The guaranteed price is at a reasonably good level, but is primarily linked to the dairy markets. The value creation (the amount the company earns on top of this for its members) really needs improvement, however. And this is possible. And here I am alluding to the

changes that were initiated in 2018." "I am seeing those changes as well," says Raoul. "I am a practical person, but I can see it happening. Things within the company are gaining speed. Speed in the decision-making process, getting all hands on deck and reinforcing each other. Deliver on what you promised. We aim to win in our markets and to transform our employees into entrepreneurs." Frans: "We have indeed made it through the deepest point. But FrieslandCampina must sail

closer to the wind. A great deal has happened already. The organisation has changed and the way of working is changing. 2018 was a year of transition and that is not always successful. I realise that. But I can see that we are heading in the right direction and that the results are improving. We're on our way up, together. The cooperative's vision is extremely closely linked to the company's success."

VISION THE MERITS OF MILK

The Merits of Milk is the cooperative's vision up to 2025. A vision in which a distinctive and market-oriented approach for the entire dairy chain is leading. A vision that anticipates societal developments and actively contributes to the realisation of climate and environmental objectives. *The Merits of Milk* strengthens the farmer's connection with the consumer. "Added value in this respect not only represents more money, but greater passion, appreciation and pride as well. A dairy cooperative whose milk and dairy products are appreciated regionally as well as globally," says Frans Keurentjes.

DEVELOPMENTS AND RESULTS

REPORT OF THE EXECUTIVE BOARD

A year of transformation

FrieslandCampina introduced a new organisation structure effective 1 January 2018. Four global business groups increase the commercial strength.

A new strategy was developed that same year: *Our Purpose, Our Plan*. This strategy provides the company with a stronger focus on the market and incorporates sustainability as a key pillar.



MARKET-ORIENTED AND SUSTAINABLE IN EVERYTHING WE DO

- Revenue declined by 4.6 percent to 11.6 billion euros. This is primarily due to exchange rate fluctuations (currency translation effects) and the sale of Riedel (fruit juice producer) at year-end 2017.
- Profit decreased by 10.6 percent to 203 million euros, primarily due to lower basic dairy revenues, competition on infant nutrition in Hong Kong and China, incidental charges resulting from the restructuring and transformation costs.
- The cash flow from operating activities increased by 201 million to 619 million euros due to improved working capital.
- The milk price for member dairy farmers decreased by 6.4 percent to 37.43 euros per 100 kilos of milk.
- Percentage of pasture grazing up from 79.4 to 81.2 percent. Target 2020 realised.
- Sustainable Campina dairy with the 'On the way to PlanetProof' label available in supermarkets.

Greater attention focused on the market
2018 was a transition year for the company. Royal FrieslandCampina N.V. started operating with a new business structure on 1 January 2018. Four globally organised business groups – Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials (see page



ACQUISITIONS TO STRENGTHEN CHEESE POSITION

In 2018, FrieslandCampina completed four acquisitions to strengthen its cheese position in Spain and Portugal, as well as in the United States. The Spanish company Millán Vicente packages and distributes cheese in Spain and Portugal. This acquisition, whereby we make use of Millán Vicente's local commercial expertise and strength, enables us to further develop, innovate and strengthen our product range for consumers and customers in Spain and Portugal. In the Netherlands and the United States, we acquired Best Cheese a supplier of special high-quality cheeses, including well-known names such as Parrano, Robusto, Melkbus and various types of Gouda, made from cow, goat and sheep milk. In December, Jana Foods was acquired. This investment is in line with our strategy of growing and strengthening our cheese business in North and South America.

34) – provide for faster decision-making and greater entrepreneurship, and as such improve the company's commercial strength. To strengthen the company, investments were made in business process improvements and non-profitable activities were reviewed. More than four hundred corporate positions were relocated to the business groups, and consequently moved closer to the market. In addition, management was partly replaced. The transformation was drastic, but necessary to enable FrieslandCampina to once again 'win in the market'. The majority of employees is of the opinion that the right measures were implemented. This is evident from a survey conducted at the end of 2018, with a 85 percent employee participation rate.

Leading with sustainability and elevating our essentials

In October 2018, the company announced its new strategy under the name *Our Purpose, Our Plan*. With this new strategy, FrieslandCampina is pursuing a direction that provides for renewed momentum. Furthermore, this creates the conditions required to bring profitability back up to par. The four strategic themes are: win with nutrition, serve the 24/7 consumer and customer, lead with sustainability and elevate our essentials. By placing greater emphasis on the market and sustainability, FrieslandCampina gives substance to its purpose, *nourishing by nature*. The new strategy is in line with the cooperative's vision, *The Merits of Milk*, which links the company's plans to the member dairy farmers' goals.

nourishing by nature

FrieslandCampina's purpose – *nourishing by nature* – stands for better nutrition for the world's population, a good living for our farmers, now and for generations to come. The purpose is in line with the United Nations' Sustainable Development Goals (SDG).

Better nutrition

The global population is expected to grow from just under 8 billion people in 2018 to approximately 10 billion by 2050. This, together with an increase in prosperity, will result in a continued growth in the demand for food. As dairy producer FrieslandCampina can contribute to feeding the world population. Milk contains nutrients that are essential for a healthy life. Proteins are important for developing and maintaining muscles and calcium is indispensable for bones. FrieslandCampina continuously works on improving product recipes through research and development. In addition, the company ensures that dairy products continue to be affordable so as to provide as many people as possible with essential nutrients from milk. FrieslandCampina's results and objectives are in line with SDG 2, 3 and 17 (see box Our contribution).

A good living for our farmers

FrieslandCampina aims to add as much value to milk as possible. This is how it wants to maximise its contribution to the incomes of member dairy farmers and the continuity of their dairy farms. A performance premium is paid on top of the guaranteed price member dairy farmers receive for their milk and member bonds are issued that are dependent on FrieslandCampina's financial results. The company aims to pay one of the highest milk prices in Northwest Europe. This way FrieslandCampina remains an attractive company for its member dairy farmers. In addition, through the Dairy Development Programme, the company supports local dairy farms in Asia, Africa and Eastern Europe in improving their farm management, milk quality and productivity. FrieslandCampina's results and objectives are in line with SDG 1, 2, 5, 8, 12 and 17.

Now and for generations to come

FrieslandCampina is working on reducing the ecological footprint of the dairy farming sector, retaining pasture grazing, continuously improving animal health and animal welfare, and preserving biodiversity. The aim is to reduce the use of scarce natural resources such as water, raw materials and fossil fuels. FrieslandCampina aims to keep



the emission of greenhouse gases in 2020 equal to 2010 levels. This also applies in case of an increase in milk production. This includes the greenhouse gases released at member dairy farms, during transport from the farm to production facilities and when the dairy is processed at the production facilities. To achieve this climate-neutral growth, FrieslandCampina is working on creating an efficient and sustainable production chain. In the context of the Climate Agreement, FrieslandCampina works together with other parties on achieving the sector target of reducing a total of 1.6 megatonnes of greenhouse gases in 2030. Furthermore, FrieslandCampina endeavours to reduce water consumption at its production facilities. The measures in 2018 were focused on countries with water scarcity. As of 2019, the measures will be focused on all sites throughout the world and the company will be targeting a 3 percent reduction. In addition, FrieslandCampina encourages member dairy farmers to start working with the Biodiversity Monitor's climate, life cycle management and nature indicators on their farm, and also encourages pasture grazing. FrieslandCampina's results and objectives are in line with SDG 6, 7, 12, 13, 15 and 17.

FOREMOST IN THAILAND

"Foremost is the largest dairy brand in Thailand. It has been the most trusted and valued brand for over more than 60 years. This results in a leadership position in the ready-to-drink segment. As a Thai brand produced in accordance with Dutch standards, we make use of Dutch knowledge and expertise. We also support Thai dairy farmers through our Dairy Development Programme in which more than 10,000 dairy farmers participate. This way we stimulate the Thai dairy farming sector and the dairy sector," says Rajdev Narula, Marketing Director at FrieslandCampina Thailand.



OUR CONTRIBUTION

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 and give governments and the business sector a roadmap for a fairer and more sustainable future. FrieslandCampina's activities contribute to 11 of the 17 SDGs of the United Nations.

Our markets

FrieslandCampina has branches in 34 countries with 23,769 employees and its products find their way to more than 100 countries.

EUROPE

revenue* € **6,394**
employees 👤 **13,261**



- Netherlands

Germany

Belgium

Greece

Hungary

Romania
- Russia

France

Spain

Italy

Austria

United Kingdom

ASIA AND OCEANIA

revenue* € **3,753**
employees 👤 **9,306**



- Indonesia

Malaysia

Singapore

Thailand

Myanmar

Vietnam

Philippines
- China

Hong Kong

Pakistan

India

Japan

New Zealand

AFRICA AND THE MIDDLE EAST

revenue* € **1,001**
employees 👤 **1,029**



- Nigeria

Ghana

Ivory Coast

United Arab Emirates
- Saudi Arabia

Egypt

Morocco

NORTH AND SOUTH AMERICA

revenue* € **405**
employees 👤 **173**



- United States
- Brazil

* millions of euros



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WIN WITH NUTRITION

All of the milk's qualities for people who are vulnerable

In the summer of 2018 FrieslandCampina Ingredients became a member of the Medical Nutrition International Industry. A milestone, especially for the Medical Nutrition unit of the Ingredients business group. "Medical nutrition is of major importance for patients and people in vulnerable situations. And it is perfectly in line with our strategy: win with nutrition," says Herman Ermens, Managing Director of Medical Nutrition.

Suppose you were hospitalised. You are seriously ill or you have been operated and you are not strong enough to eat sufficiently by yourself: this is when medical nutrition is the perfect solution. Medical nutrition contains carbohydrates, fats, proteins, vitamins and minerals that provide your body with the much-needed energy and nutrients for recovery. "FrieslandCampina has been making ingredients for medical nutrition for decades. Two years ago we started to specifically focus on this market with a dedicated team, the Medical Nutrition unit. We know that ingredients from milk, in particular protein are very important for the recovery of patients. Over the past two years we entered into discussions with our largest customers and producers of medical nutrition in the world to gain greater insight into their wishes and that of the end-user in order to meet this need. Purely by paying more attention to our customers and by looking over their shoulders at the wishes of the patient and caregiver, we realised excellent results in a very short period of time."

Aware

Medical Nutrition not only limits itself to providing ingredients. A series of new products for patients is

currently under development. "FrieslandCampina is an expert in making delicious dairy products in terms of taste and texture. We use that knowledge to develop beverages that are as compact as possible: the least possible volume with the highest possible concentration of nutrients. This is one area in which we can differentiate ourselves as FrieslandCampina."

Herman Ermens is seeing a growing interest in special nutrition. And not just purely medical nutrition. "Consumers are becoming increasingly aware of healthy nutrition. That also applies to people who are ageing, to sports people and to people with very busy lives. Proper nutrition increases your performance and enables you to stay healthy longer as you grow older. Of course, anyone can be hit by an illness and we are all getting older, but here too good nutrition can aid recovery and help us maintain the quality of life high as long as possible. The worldwide growing demand is not a hype, it is a persistent trend. What we all have in common with each other is that we want to stay independent as long as possible and be able to go our own way. FrieslandCampina plays a role in this."

nourishing by nature

2018 RESULTS

Better nutrition

A healthy product range, clear product information, providing more people with access to food and teaching children to eat healthily and to exercise, this is what FrieslandCampina aims for with better nutrition.

Balance and composition of product range
Milk is full of important nutrients: protein, calcium, vitamins and minerals. Dairy products form part of a healthy diet and can contribute to feeding the growing world population. However, nowadays too many people suffer from diseases of affluence (obesity and nutrition-related diseases). According to the World Health Organisation

(WHO), it is important to reduce the intake of sugar, fats and salt. As a food producer, FrieslandCampina aims to make a contribution to this as well. The international organisation Choices International has asked independent scientists to come up with standards for trans-fat, saturated fat, added sugar and salt in food products. FrieslandCampina endeavours to comply with these standards.



In 2015, agreements were formulated in the Netherlands to reduce food sugar content for a period of three years. These agreements are set out in the Product Composition Improvement Agreement (AVP). An audit has confirmed that FrieslandCampina complies with these agreements. In the meantime, work is underway in the Netherlands to even further reduce food sugar content.

In addition, the company has developed its own product standards for the composition of dairy products. These are the FrieslandCampina Global Nutritional Standards that its consumer dairy products are expected to meet. Over the short term, FrieslandCampina aims to have at least 70 percent (measured by volume) of all of its products comply with these standards. This

Milk is full of important nutrients!

percentage increased to 66 percent in 2018 (2017: 64 percent).

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 that at least 70 percent of all products are 'basic nutritional products for daily consumption' and a maximum of 30 percent are 'self-indulgent products for occasional consumption'. In 2018, this percentage was 80 percent and in 2017 it was 81 percent.

Responsible marketing communication
To be able to eat and drink healthily, adults and children must have access to responsible options. Advertising that targets children

A greements were made to further reduce sugar in food



HIGHER RANKING ON THE ATNI

ATNI, the international Access to Nutrition Index, shows that our dairy products indeed contribute to a healthy nutritional pattern. The ATNI report was published in May of this year. The report compares twenty large food companies with each other in relation to the production of healthy nutrition. FrieslandCampina rose to fourth position on this index. And on some components, such as 'product portfolio' we were even ranked first. CEO Hein Schumacher: "This result is encouraging and we consider it a recognition of our efforts to give substance to our purpose *nourishing by nature*."

up to twelve years of age is only permitted for products that meet strict scientific nutritional criteria, so that children are encouraged to eat healthier products. In addition, FrieslandCampina participates in codes of conduct in this area, such as the EU Pledge (voluntary initiative of European food companies about advertising aimed at children). At least 98 percent of FrieslandCampina TV commercials in the European Union must comply with the commitments of the EU Pledge. In 2018, this was 98.8 percent (2017: 95.6 percent). The objective is for all FrieslandCampina brand websites in the European Union to comply with the commitments of the EU Pledge. In 2018, this was 100 percent (2017: 100 percent). FrieslandCampina provides clear and honest information about the nutritional value of a product on its packaging. This enables the consumer to make good choices. The nutritional value table specifies exactly what the product contains, per 100 grams/ml, as well as per portion. The table also specifies the recommended daily intake of a specific nutrient.

A healthy nutritional pattern and exercise
A healthy lifestyle and sufficient exercise are important for people of all ages. In many countries, FrieslandCampina invests in programmes designed to make children aware of this. In 2018, the company in Southeast Asia once again partnered with the Junior National Basketball Association; the worldwide youth basketball programme of the NBA that encourages children to exercise.

In Vietnam, Thailand, Indonesia, Malaysia, Singapore and the Philippines the Drink. Move.BeStrong campaign assists parents and teachers in creating awareness among children of the need to exercise sufficiently

indoors and outdoors, and of the importance of responsible nutrition and living a healthy life. Parents and children also receive information about healthy nutrition and an active lifestyle via World Milk Day, school milk programmes, Goodness of Dairy campaigns, and the Youth at a Healthy Weight (JOGG) and Everyone Fit at School programmes.

In addition, FrieslandCampina has its own FrieslandCampina Institute that primarily targets healthcare dieticians and professionals. Conferences and e-learning courses are offered and round table sessions are organised on topics ranging from health at all ages and the scientific nutritional composition of milk and dairy products. The FrieslandCampina Institute cooperates with scientists, nutritional and health professionals and professional associations of dieticians, youth healthcare professionals and sports and fitness professionals. The FrieslandCampina Institute is active in various countries and by means of various communication channels, including the FrieslandCampina Institute's own website.

Access to food
Absorbing sufficient nutrients each day is important. Unfortunately this is not achievable for everyone. For example, a shortage of iodine, vitamin A and iron is a major threat to women and children in countries with low incomes. FrieslandCampina intends to make dairy available to as many people as possible, especially people with low incomes. This programme looks at availability, prices and packaging. For example, in the Netherlands, FrieslandCampina works together with food banks and in Europe, Asia and Africa with various school milk programmes. A number of years ago, 'sachets' were introduced to the market in

CONTENTS

BETTER NUTRITION

	2018	2017
Product composition (as a percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards)	66	64
Balance of product supply (basic food products as a percentage of the total volume of consumer products sold)	80	81

Nigeria: affordable portions of concentrated dairy that are enriched with vitamins and minerals and that are available everywhere.

Increasing the accessibility of food and the intake of sufficient nutrients is a challenge. This is why FrieslandCampina in 2018 initiated the second edition of the 'Southeast Asia Nutrition Surveys' (SEANUTS II). This scientific research is designed to provide insight into the nutritional status of children in Indonesia, Vietnam, Thailand and Malaysia. The study is conducted in close cooperation with governments and other organisations in the relevant countries.

Foqus: quality and food safety
Food should not only be healthy, it must also be safe and of excellent quality. FrieslandCampina uses a standard quality system (Foqus) to safeguard safety and quality throughout the entire chain, from the farm right through to distribution in shops. Foqus offers consumers, customers and governments the guarantee that products and production processes comply with the strict quality and safety requirements. Products and processes are continuously analysed for microbiological quality, hygiene and composition. FrieslandCampina not

only has its inspection team, but also makes use of independent external bodies. Thanks to Foqus, FrieslandCampina complies with a range of national and international regulations and standards for food safety and quality based on the HACCP, ISO 9001 and FSSC 22000 standards.

Employees at all production facilities abide with FrieslandCampina's Golden Quality Rules. This concerns:

- Satisfied consumers and customers
- Qualified and committed people
- Robust processes
- Clean and efficiently organised work areas
- Sustainable implementation of changes and resolution of problems
- Reliable data
- Professional partners and suppliers



Victina Tse
Manager Public Relations and Corporate Social Responsibility in Hong Kong

"Better nutrition also is about the best possible nutrition for pregnant women. Frisomum was introduced to the market in Hong Kong. A special product with nutrients for supporting pregnant women and their babies. It contains DHA (omega three fatty acids), calcium, vitamin D and B12, iodine, choline, folic acids and other important nutrients for pregnant women. With Frisomum we support pregnant women in taking in their daily portion of nutrients. It also helps them maintain a healthy weight. Both being overweight, as well as underweight represents a risk for expecting mothers. Helping pregnant women with Frisomum is a way of making better nutrition."



FOCUS ON EXTRA PROTEINS

"In Asia people primarily establish a link between milk and calcium. The fact that milk by its very nature also contains high-quality proteins is still relatively unknown. This is why, two years ago, we initiated a project to launch a new product with extra proteins to start off the day on the right foot," explains Yuchu Zhang, Development Manager. "This has become a milk with extra proteins that we introduced in Vietnam in April and in Thailand in September. Other countries in the region will follow soon." Yuchu and her colleagues are also working on other product lines with extra proteins. "We are working hard on creating the 'protein story' in Asia. We are truly pushing back our frontiers!"

Encouraging children to exercise

Innovation
Production processes that use less energy; the development of sustainable packaging; creating insight into solutions for lowering the ecological footprint of the dairy farming sector: employees at the FrieslandCampina Innovation Centre in Wageningen are making a key contribution to creating a sustainable dairy chain. In addition, they work together with business group employees on new products or product variations: with the best possible match to consumer and customer wishes and needs. The areas of focus in the new company strategy are key in this regard.

Milkubator
The innovation process will be as much as possible accelerated: this past year a great deal of attention was focused on shortening the lead time required to bring a product to market. The 'Milkubator', a platform for working just like a start-up and that makes it possible to bring innovations to market quickly, was introduced in 2017. In the mean time some of the recent innovations have been included in our product range. All kinds of different ways to accelerate the innovation process are also assessed for

investigations that require a longer lead time. 'Open innovation' plays an important role in this and involves cooperation with many different knowledge institutes and other organisations. At FrieslandCampina experts are working in the field of nutrition, milk components, process technology, products, packaging, sustainability and dairy farming. Thanks to its knowledge and expertise, FrieslandCampina is able to continuously improve and renew the supply chain. In 2018, FrieslandCampina invested 80 million euros in its research & development activities.

- Key innovations**
- Human-like Milk Oligosaccharide, ingredient for infant nutrition
 - Friso Comfort Next, new recipe for infant nutrition
 - Whey Protein Isolate, pure protein ingredient for products such as sports nutrition
 - Dutch Lady/Foremost Protein Plus, milk with a long shelf life and high-quality proteins
 - Landliebe quark



SURVEY AMONG CHILDREN

In 2018, FrieslandCampina announced that it will once again conduct a survey among children in Southeast Asia. This SEANUTS (Southeast Asia Nutrition Survey) survey is designed to provide insight into what children in Indonesia, Thailand and Malaysia eat and drink. The survey is carried out in close cooperation with institutes and universities. The results are expected to be available in 2021 and will be used to develop dairy products that help meet children's nutritional requirements. The survey also provides scientific insight for government organisations, thus enabling them to formulate children's health policy.



NEW INFANT NUTRITION IN MEXICO

A new boost for the infant nutrition portfolio in Mexico: Friso Comfort Next. An innovation for children older than one year with digestive problems. "Our customers asked for a product able to tackle this problem," says Minke Burgers, Project Manager. "We wanted to be sure that we could develop a product that provides the right answer to this problem. We met with paediatricians who told us that children one year and older often suffer from constipation (difficult bowel movements) and cramps. It is really great that we are now able to offer a product that provides a solution for children with these complaints."



Everyone has a Peak



Reach for your Peak



SERVE THE 24/7 CONSUMER AND CUSTOMER

Craftsmanship and innovation

The family business Bäckerei Kistenpfennig has been receiving guests from the greater Munich area in Germany since the fifties. Something for everyone: bread, specialty coffees and pastry. "Early in the morning guests arrive for a quick cappuccino, around noon for a coffee with a pastry, in the afternoon for lunch with sandwiches and in the evening we sell our traditional selection of breads," says Simone, the owners' daughter of Bäckerei Kistenpfennig. The bakery chain has been using Lattiz since 2018 as a means of further anticipating the needs of the 24/7 consumer.

The bakery has been characterised by Bavarian quality, traditional baking recipes and a cosy atmosphere in its branches for many generations. Kistenpfennig is continually renewing the product range and business operations in anticipation of the changing market. "We are always looking for innovations to constantly provide for the needs of the consumer and to make our daily work easier without comprising quality. The introduction of the Lattiz milk foam system for making milk coffees is a good example of this. It makes it easier for employees to work with the coffee machine, because the Lattiz system foams the milk instead. The Lattiz enables us to produce milk foam significantly faster and at a constantly high quality," says Simone Kistenpfennig.

Making choices for the long term

As a family business Bäckerei Kistenpfennig is focused on the long term and its decisions are in line with the family's values. Simone Kistenpfennig: "As a family we consider it important for everyone

to be able to live well. This is why we never go looking for the cheapest product. We like the fact that the Lattiz system helps keep prices at a level that allows everyone to make a good living."

Family business

The bakery is constantly evolving to anticipate the changing market. "For example in the north of Munich, catering is important. This is why we offer an extensive lunch menu in our branches with a wide range of grilled sandwiches. Freshly squeezed juices and egg dishes now form part of our standard assortment. Yet, we do not follow every trend. We choose the things that fit in with our business as a family bakery and reject those that do not. We would very much like to open a number of other branches, but we would also like to focus on improving our existing branches."

Our brands

Friso, Frisian Flag, Dutch Lady, Frico, Peak, Debic, Campina:
FrieslandCampina carries brands with an established reputation
in their markets throughout the world. For consumers, as well as
professional users. The Ingredients business group carries six brands
for its business-to-business customers: the food industry
and the pharmaceutical industry.

INGREDIENTS:



nourishing by nature

2018 RESULTS

A good living for our farmers

A key FrieslandCampina goal is to add as much value as possible to milk and to contribute the maximum possible to dairy farmers' incomes and to the continuity of dairy farms.



In the second half of the year there was an increase in sales volumes

Lower company revenue

The decrease in revenue by 4.6 percent is primarily due to currency effects (2.3 percent) and the sale of Riedel fruit juices (0.7 percent). The lower volumes and sales prices account for a negative effect of 1.6 percent. The volumes of all business groups declined in comparison to 2017. In the second half of the year there was an increase of 2.3 percent in the sales volumes of added value products in comparison to the first half-year. The cost of goods sold decreased by 4.2 percent to 9,761 million euros.

Operating profit and profit decline

The operating profit decreased by 23.0 percent to 342 million euros in 2018 (2017: 444 million euros). This lower operating profit was in part caused by the approximately 100 million euro loss on basic dairy products caused by the low basic dairy prices in comparison to the guaranteed price (the basic price FrieslandCampina paid its member dairy farmers for their milk), especially in the first half of 2018. In addition, FrieslandCampina was also adversely affected by the increased competition on the infant nutrition market in China and Hong Kong. By making additional investments in innovation, marketing, sales and distribution, FrieslandCampina managed to maintain its market positions in China and Hong Kong.

Incidental charges also reduced the result. These charges were related to the announced closures of production facilities and the ongoing organisational restructuring. Together with the transformation costs, the incidental charges in 2018 amounted to approximately 50 million euros.

Focus on maintaining market shares in infant nutrition

The profit in 2018 decreased by 10.6 percent to 203 million euros (2017: 227 million euros). This is the result of a lower operating profit. FrieslandCampina invested 540 million euros in advertising and promotions. This is virtually the same as in 2017, but with greater focus on maintaining the infant nutrition market shares in China and Hong Kong. At 867 million euros, sales and general administrative costs stayed the same as last year.

Reversal in the second half of 2018

In the second half of 2018, the first positive results of the implemented changes were evident. For example, in the second half of the year the volumes in all business groups increased by a total of 2.3 percent in comparison to the first half-year. The sale of cheese produced a positive result in the second half of the year. To strengthen our positions in cheese, four acquisitions were completed in the second half of the year. In addition, a processing agreement for the production of mozzarella was signed. To secure further growth in this cheese segment. Furthermore, the Consumer Dairy business group experienced significant improvement in growth, particularly in Asia.

Various improvement programmes contributed to savings amounting to 85 million euros. The processes at different production facilities were reviewed in the context of the World Class Operations Management (WCOM) programme, which resulted in various improvements and cost savings. Cost reductions were implemented in the context of the Focus on Reducing Costs Everywhere (FORCE), for example software licenses, travel and the hiring of temporary employees.

Results by business group

On 1 January 2018, FrieslandCampina implemented a new organisation structure to increase speed and agility with four market-oriented business groups. The reporting of the figures for 2018 in comparison to 2017 (and prior years) has been adjusted to reflect the new organisational structure.

Consumer Dairy

- Revenue and volume declined slightly, while the operating profit increased in comparison to 2017.
- Positive volume trends in the Middle East and Africa. Production in Nigeria was brought back up to the level prior to the fire at the production facility in January 2017.
- Small growth in volume in Asia, with the exception of Pakistan, where the volume only recovered over the course of the fourth quarter.
- For reasons of efficiency, the production of whipped cream cans was transferred from Saint-Paul-en-Jarez (France) to Lummen (Belgium).
- To strengthen the company's position in the sale of Dutch specialty cheeses, the activities of Best Cheese (Netherlands and the United States) and Millán Vicente (Spain) were acquired.
- Campina Biologisch (Netherlands) launched a line of fresh organic dairy products in new climate-neutral packaging that is 100 percent recyclable with a cap and coating made of plastic organic residual materials.
- Campina (Netherlands) introduced a dairy line with the label 'On the way to PlanetProof' with an integrated focus on animal, nature and climate.
- Landliebe (Germany) expanded its product range with quark.

- Lattiz milk foam system introduced in Germany and France.
- Olper's and Tarang (Pakistan) were re-launched to restore revenue and profitability.

Specialised Nutrition

- Revenue and profit lower due to lower volumes, negative currency results and long elapsed times in the supply chain.
- Friso Prestige volume increases in the ultra-premium segment in China insufficient to offset lower revenue in other segments. Increase in the sale of locally produced Dutch Lady infant nutrition.
- Decrease in revenue and profit in Hong Kong due to severe competition. Friso remained market leader in Hong Kong.
- Friso revenue growth in Malaysia and Indonesia. Friso remained market leader in Vietnam in spite of a strong market decline in large cities.
- Mixed picture in Europe, the Middle East and Africa. Volume growth in the Middle East, Russia and Nigeria, and volume decline in Greece.
- Volume of Optimel elderly nutrition in Hong Kong stabilised.

Ingredients

- Revenue affected by lower raw material prices; only partly charged on to the markets.
- Volume trend stable across entire line. Reduced demand for animal feed and shift of focus within FrieslandCampina Kievit to increasing profitability at the expense of volume.
- Good results in sports nutrition, medical and infant nutrition due to volume and price.
- Disappointing results in supply chain and DFE Pharma joint venture.

- New production facility in Borculo (Netherlands) completes first commercial production runs.
- Global SAP implementation for all Ingredients commercial, planning & logistics entities in June 2018.

Dairy Essentials

- Revenue and operating profit adversely affected by low basic dairy prices in relation to the guaranteed price, particularly in the first and fourth quarter of the year.
- The average sales prices recovered in comparison to the market index for basic dairy prices.
- Volume increases were realised in cheese produced in accordance with the non-GMO (VLOG) standard (Germany), Valess and by the Zijerveld cheese specialist.
- There was a reduction in the need for selling milk on the spot market.
- Cost reduction successfully implemented. Cost levels in the supply chain under pressure, in part due to incidental charges.
- For reasons of efficiency, the cheese packaging activities in Sénas (France) were relocated to Genk (Belgium) and Leerdam (Netherlands), and the company announced the closure of the mozzarella production facility in Bree (Belgium).
- Processing agreement with DMK Group for the production of mozzarella, to secure further growth in this segment.

Profit appropriation

Of the 203 million euro profit in 2018, 73 million euros was attributed to non-controlling interests (2017: 31 million euros). The Executive Board proposes to add 74 million euros to the retained earnings (2017: 143 million euros). The remaining profit has been appropriated as follows: 47 million euros was reserved for the interest payment to holders of member bonds

RESULTS PER BUSINESS GROUP

In millions of euros, unless stated otherwise

	2018	2017	Δ%
Consumer Dairy			
Revenue	5,498	5,697	-3.5
Revenue before currency translation effects	5,710	5,697	0.2
Operating profit ¹	▲		
Price effect on revenue ¹	▲		
Volume trend (percentage) ¹	-1.2		
Volume-mix effect on revenue (percentage) ¹	0.0		

Specialised Nutrition

Revenue	1,247	1,301	-4.2
Revenue before currency translation effects	1,292	1,301	-0.7
Operating profit ¹	▼		
Price effect on revenue ¹	▲		
Volume trend (percentage) ¹	-2.5		
Volume-mix effect on revenue (percentage) ¹	-1.9		

Ingredients

Revenue	1,735	1,794	-3.3
Revenue before currency translation effects	1,753	1,794	-2.3
Operating profit ¹	▼		
Price effect on revenue ¹	▼		
Volume trend (percentage) ¹	0.4		
Volume-mix effect on revenue (percentage) ¹	3.4		

Dairy Essentials

Revenue	3,060	3,226	-5.1
Operating profit ¹	▼		
Price effect on revenue ¹	▼		
Volume trend (percentage) ¹	-4.9		
Volume-mix effect on revenue (percentage) ¹	-1.3		

¹ Compared to 2017

Acquisitions strengthen cheese positions

(2017: 44 million euros) and 9 million euros was reserved for the interest payment on the cooperative's loan to the company (2017: 9 million euros).

Increase in operating cash flow

The cash flow from operating activities increased by 201 million euros to 619 million euros (2017: 418 million euros) due to improved working capital. In 2018, the outbound cash flow for investments and acquisitions amounted to 490 million euros (2017: 414 million euros). 461 million euros was invested in production capacity, and in efficiency and quality improvements (2017: 531 million euros).

Strengthening the organisation and its market position

To strengthen the company, non-profitable activities were reviewed and investments were made in business process improvements. Aside from relocating production activities and the announced closures, the activities relating to financial transactions in Europe and Asia where largely brought together in the financial shared services centres in Budapest (Hungary) and Kuala Lumpur (Malaysia). In addition to the acquisitions and a processing agreement for the production of mozzarella with the DMK Group, FrieslandCampina

acquired the remaining shares in Friesland Huishan Dairy Investments (Hong Kong) Ltd. This operating company produces and sells infant nutrition under the brand name Dutch Lady in China and also produces tea and coffee creamers for Kievit. This acquisition gives FrieslandCampina full control over the former joint venture activities, including the production facility near Shenyang (China).

Value creation declined

Over 2018, a total of 62 million euros has been paid to member dairy farmers on top of the FrieslandCampina guaranteed price (2017: 142 million euros). Of this, 48 million euros (0.46 euro per 100 kilos of milk) was allocated to the performance premium. The issue of member bonds over 2018 amounts to 14 million euros (0.13 euro per 100 kilos of milk). In total, the value creation (the performance premium and the issue of member bonds) per 100 kilos of milk amounted to 0.59 euro (2017: 1.33 euro). The decline was due to a lower result.

The FrieslandCampina milk price for member dairy farmers over 2018 decreased by 6.4 percent to 37.43 euros per 100 kilos of milk (2017: 40.01 euros) The FrieslandCampina guaranteed price over 2018 was 36.05 euros

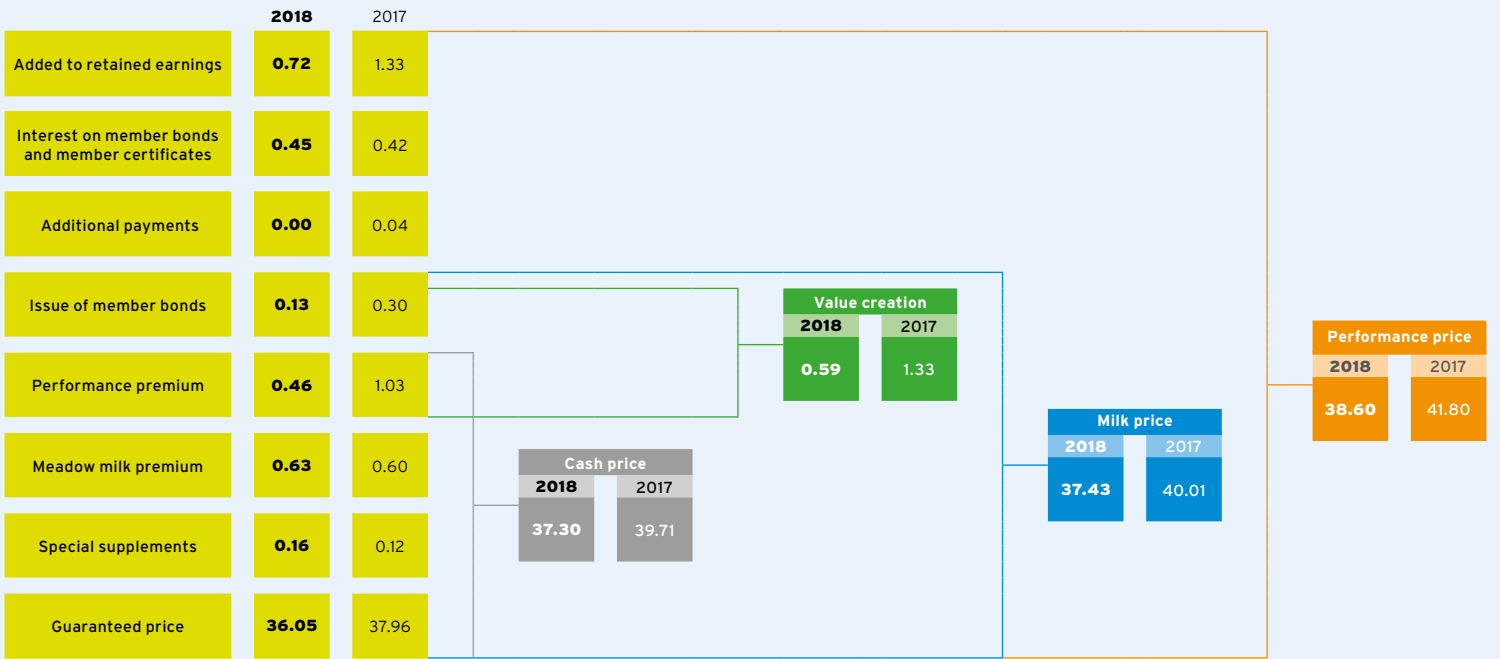
per 100 kilos of milk, a decrease of 5.0 percent compared to 2017 (37.96 euros). The decrease in the guaranteed price was the result of lower milk prices of the reference companies. The premium for special milkstreams was 0.16 euro (2017: 0.12 euro). Distributed across all forms of milk, the meadow milk premium amounted to 0.63 euro per 100 kilos of milk (2017: 0.60 euro).

The FrieslandCampina organic milk price over 2018 was 49.05 euros per 100 kilos of milk (2017: 51.43 euros). The FrieslandCampina organic guaranteed price was 47.46 euros per 100 kilos of milk (2017: 49.10 euros). The performance premium and the issue of member bonds were the same as for regular milk.

On 1 September 2018, FrieslandCampina distributed an interim payment of 0.41 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 (0.21 euro per 100 kilos of milk over the entire year). The final settlement will be effected in March 2019, based on FrieslandCampina's results for the year and the quantity of milk supplied by dairy farmers in 2018. The

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)



DAIRY VILLAGE IN INDONESIA

The first Dairy Village was opened in December in the context of Frisian Flag Indonesia's Dairy Development Programme.

Dairy Village forms part of a programme that is co-financed by the Dutch government and supported by the Indonesian government. Dairy Village is a modern and sustainable farm where five to ten Indonesian dairy farmers work together. All are member of the North Bandung Dairy Farmers Cooperative in Lembang, West Java. The dairy farmers share the facilities on the farm and are provided with training to enable them to work more efficiently, and improve productivity and the milk's quality.



performance premium over 2018 amounted to 0.46 euro per 100 kilos of milk. This means that member dairy farmers will still receive a performance premium of 0.25 euro per 100 kilos of milk.

The total interest paid on member bonds in 2018 rose to 47 million euros (2017: 44 million euros). This was due to the increased number of bonds. The interest rate over the period 1 January to 31 May 2018 was 2.976 percent. The interest rate over the period 1 June to 30 November 2018 was 2.981 percent, while the interest rate in the month of December 2018 was 2.997 percent (the interest rate on the 6-month Euribor for December 2018 was -0.253 percent). The average interest paid per 100 kilos of member milk was 0.45 euro (2017: 0.42 euro).

Decrease in the milk supplied by members

To ensure that phosphate production stays below the phosphate ceiling, effective 1 January 2018, a dairy farm is not permitted to produce more phosphate with dairy cattle kept for commercial purposes than the number of phosphate rights allow. The

number of dairy cows in 2018 decreased as a result. Furthermore, the summer was very dry. As a result, in comparison to the previous year, the milk supplied by member dairy farms in 2018 decreased by 3.2 percent to 10,375 million kilos of milk (2017: 10,716 million kilos of milk).

Dairy Development Programme

FrieslandCampina, through the Dairy Development Programme (DDP), in nine 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 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, the DDP contributed to maintaining and improving the relationship with local governments and other stakeholders.

In 2018, 80,216 (2017: 20,347) local farmers participated in training programmes in the context of the DDP in Nigeria, Vietnam, Thailand, Malaysia, Indonesia, Pakistan and Romania. The last two countries were included in the figures for the first time this year. The number of local farmers who directly or indirectly formed part of the DDP was more than 250,000. In addition, in 2018, for the second year, 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 279 dairy farms in Vietnam, Indonesia and Malaysia, and in 2018, for the first time also Thailand, 63 percent scored at least 'satisfactory'. Excluding Thailand, at least 54 percent scored 'satisfactory' in 2018.

DDP in 2018

- The subsidiary Frisian Flag Indonesia (FFI) together with a number of partners, opened the first Dairy Village in the country. On this modern and sustainable farm several Indonesian dairy farmers worked together.
- FrieslandCampina WAMCO announced

- plans for investing 23 million euros in the Nigerian dairy sector for the purpose of increasing local milk production. Part of the plan involved setting up model farms and milk collection points.
- Engro Foods (Pakistan) won the prestigious Commonwealth Company of the Year Award for the programmes it organised to strengthen the role of women in the dairy farming sector.
 - Over the past year 16 employees and 17 member dairy farmers of FrieslandCampina provided advice to 24 cooperatives, among others, during 23 advisory missions for FrieslandCampina and its partner organisation

¹ Buffer capital is the equity attributable to the shareholder.

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

³ Dairy farmers applying pasture grazing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2018. 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 0.63 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.

⁴ Special milkstreams 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 (47.46 euros) and the guaranteed price (36.05 euros) per 100 kilos of milk. On average, on all FrieslandCampina member milk, this amounts to 0.16 euro per 100 kilos of milk.

⁵ The sharp increase in the total number of trained local farmers in DDP countries is due to the inclusion of training programmes carried out in Pakistan and Romania, and a one-year project in Nigeria.

A GOOD LIVING FOR OUR FARMERS

In millions of euros, unless stated otherwise

	2018	2017	Δ%
Results			
Revenue	11,553	12,110	-4.6
Revenue before currency translation effects	11,828	12,110	-2.3
Operating profit	342	444	-23.0
Operating profit before currency translation effects	361	444	-18.7
Profit	203	227	-10.6
Profit before currency translation effects	209	227	-7.9
Operating profit as a percentage of revenue	3.0	3.7	

Balance sheet

Balance sheet total	8,822	9,046	-2.5
Equity attributable to the shareholder and other providers of capital	3,209	3,178	1.0
Equity as a percentage of the balance sheet total	36.4	35.1	
Buffer capital as a percentage of the balance sheet total ¹	14.8	14.2	
Net debt ²	1,287	1,400	-8.1

Cash flow

Net cash flow from operating activities	619	418	48.1
Net cash flow used in investment activities	-490	-414	-18.4
Net cash flow used in financing activities	-101	-116	12.9

Investments

	461	531	-13.2
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Member dairy farmers

Number of member dairy farms at year-end	12,104	12,707	-4.7
Number of member dairy farmers at year-end	18,261	18,645	-2.1
Milk supplied by member dairy farmers (millions of kg)	10,375	10,716	-3.2
Total compensation member dairy farmers	3,933	4,346	-9.5

Value creation for member dairy farmers

in euros per 100 kilos of milk (exclusive of VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)

Guaranteed price	36.05	37.96	-5.0
Performance premium	0.46	1.03	
Meadow milk premium ³	0.63	0.60	
Special milkstreams ⁴	0.16	0.12	
Cash price	37.30	39.71	-6.1
Reservation of member bonds	0.13	0.30	
Milk price	37.43	40.01	-6.4
Additional payments	0.00	0.04	
Interest on member bonds	0.45	0.42	
Retained earnings	0.72	1.33	-45.9
Performance price	38.60	41.80	-7.7

Dairy Development Programme

(all figures pertain to countries in which the DDP operates)

Local farmers who participated in a training programme (number)	80,216 ⁵	20,347	294.2
Percentage of farmers who score at least a 'good' on the Good Dairy Farming Practices (GDFP) index	63	54	



leder kalf gezond groot

Nieuw leven in de stal verdient het beste;
warme zorg, een gezonde leefomgeving
én goede voeding.

De kalvermelkpoeders van Kalvolac worden gemaakt met melk uit eigen stal, van leden van onze coöperatie FrieslandCampina. We leren veel van onze leden. Geen enkel bedrijf is hetzelfde. Maar een ding hebben we allemaal gemeen; als het beter kan, gaan we voor beter.

We delen onze kennis graag op onze website.
Bezoek ons op kalvolac.nl

Kalvolac
by FrieslandCampina Nutrifeed



LEAD WITH SUSTAINABILITY

Farmers with consideration for nature and climate

Consumers are demanding sustainable products. Dairy farmer Marijke Rijsburger from Zoeterwoude is happy that FrieslandCampina in 2018 launched the more sustainable dairy line with the 'On the way to PlanetProof' label on the market.

"Wonderful that as a major player we have the courage to take this step. However, I do hope that consumers are prepared to make truly sustainable choices when they go shopping. That when they are standing in front of a retail shelf they choose our On the way to PlanetProof package and help us farm with as much consideration for animal, nature and climate as possible." With the introduction of its more sustainable dairy line, FrieslandCampina and its member dairy farmers give further substance to the purpose *nourishing by nature* and to the ambition of building a leading position with sustainability.

Recognition for sustainability

Marijke's family farm is one of the first dairy farms to produce this sustainable milk stream. "It is a wonderful recognition of our work," says Marijke. "We are a fourth-generation family farm," she continues. "In the future I will be the fifth generation." When she will be taking over the farm has not yet been established. Marijke is proud that their farm is allowed to supply PlanetProof milk. "We think it is tremendous that our sustainability-related initiatives are being recognised."

Bird nests

The farm scores well in all areas of sustainability for dairy that is allowed to carry the PlanetProof label

issued by the Stichting Milieukeur (Environmental Quality Mark Foundation): animal welfare, nature and climate. For example, they feed their cows from their own grasslands and recover heat from the milk. "We use it to heat the water for cleaning the milk tank." In addition, the farm devotes a great deal of attention to pasture grazing and animal well-being. "Last year our cows spent almost 200 days in the pasture. In case of illness we give them a great deal of time to recover. If necessary we milk them by hand." Marijke's brother pays careful attention to birds and always looks out for meadow bird nests and mows around them. The family is currently investigating the possibility of installing windmills. "That would give us some additional income at the same time."

Sustainable future

Marijke wants to take over her parents' farm at some point in the future. Up until the transfer, Marijke and her partner Max work full-time outside the farm as livestock feed representatives. "Every penny we earn counts. This way we acquire knowledge about laws and regulations and are building up a financial buffer for a sustainable future."



The dairy sector in 2018

What did the global dairy market look like in 2018?
Developments and trends in the (global) dairy sector affect FrieslandCampina's results and determine future choices.

In 2018, the supply of raw milk in the Netherlands declined by over 3 percent in comparison to the previous year. The dry weather and the phosphate reduction plan were the key reasons for the slightly declining milk supply.

Due to the drought in 2018, the growth in the supply of milk in Europe was constrained as well. In 2018, the milk supply in the European Union rose by approximately 1 percent. In the United States, the growth in the supply of milk was roughly equal to that in Europe.

In New Zealand, milk production at the end of the year experienced a growth spurt and as a result the increase in the milk supply was over 2 percent in comparison to 2017.

Market trends

Milk prices

The average milk prices in the European Union initially slightly declined to 32 euros per 100 kilos. This was followed by an increase, ultimately resulting in a price of 36 euros per 100 kilos towards the end of the year. In the Netherlands, milk price development displayed a similar trend, but at a somewhat higher level.

Butter

The butter supply was lagging at the beginning of this year. This made it possible for prices to rise to close to 6,000 euros per tonne at the beginning of 2018. As the year progressed, production increased as a result of which the price level dropped to approximately 4,000 euros per tonne. From a historical perspective this is still a high butter price.

Milk powder

At the beginning of 2018, 380,000 tonnes of skimmed milk powder were held in storage. The EU sold 280,000 tonnes of skimmed milk powder at prices ranging from between 1,050 and 1,450 euros per tonne. As a result intervention stocks dropped to approximately 100,000 tonnes at year-end 2018.

Cheese

Approximately half of Dutch milk is used for cheese production. The cheese price over 2018 was fairly stable: ranging from 2,700 euros per tonne to 3,000 euros per tonne later in the year. Cheese production increased by 2 percent in comparison to 2017. The increased production was easily sold on the market.

Global consumer trends

Consumers throughout the world are increasingly demanding sustainably produced dairy products. Consumers increasingly consider it natural that companies not only devote maximum effort to animal welfare and biodiversity, but also that they assume their role in contributing to a better world and achieving the international climate targets. Dairy producers and buyers consequently are increasingly joining forces for the purpose of developing global sustainability standards. Consumers 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.

nourishing by nature

2018 RESULTS

Now and for generations to come

Lead with sustainability: this is an important task that FrieslandCampina, the cooperative and the company, has set for itself. We have been working on reducing the ecological footprint for years. Reduced energy consumption and lower CO₂ emissions are part of this. Furthermore, FrieslandCampina encourages the efforts of member dairy farmers in the area of biodiversity and animal well-being.

FrieslandCampina's production facilities in Europe have been fully powered by green electricity since 2017

Reducing the ecological footprint

The emission of greenhouse gases must decrease. FrieslandCampina aims to keep greenhouse gas emissions in 2020 at the same level (or lower) as in 2010 (12,307 kt CO₂ equivalent). This includes the greenhouse gases released at member dairy farms, during the transport of milk from the farm to production facilities and when the dairy is processed at the production facilities. In 2018, the total emissions in the chain decreased by 5.1 percent to 12,462 kt CO₂ equivalent (2017: 13,136 kt CO₂ equivalent).



LESS AMMONIA AND ENERGY

A new refrigeration unit was installed at the production facility in Laksi Thailand last year. The old system used a relatively high amount of energy and ammonia. The new unit makes use of the best available technologies. For example, the use of ammonia has been reduced from 3,500 kg to 80 kg. The energy saving has a major impact on the plant's total consumption and has resulted in a 7 percent saving. Furthermore, the unit is much safer because it requires much less ammonia.

The greenhouse gas emission for production and transport decreased by 8.7 percent to 811 kt CO₂ equivalent. This was accomplished by consuming less gas and exploiting more renewable energy sources.

More green electricity and energy efficiency in production and transport

FrieslandCampina's production facilities in Europe have been fully powered by green electricity since 2017. This represents 90 percent of the company's total worldwide electricity consumption. Almost 28 percent of all green electricity is purchased from member dairy farmers. In 2018 the production facility in Veghel (Netherlands) shut down two of its gas turbines and partially switched over to green electricity. Once the second phase

is completed in May 2019, the Veghel site will produce 20 percent less CO₂.

A programme designed to enable FrieslandCampina to reduce its energy consumption by at least 8 percent over a period of four years was initiated in 2017. This will be accomplished through technological process innovations that will be delivering energy savings. As a result of the partial completion of a number of projects, energy consumption stabilised at 2.8 GJ/tonne last year.

Reduction of water consumption in production

Water is a global scarcity. In 2020, the water consumption at production facilities must be

equal to or lower than in 2010. The reduction measures here are primarily focused on countries with little water such as in the Middle East, Africa and Asia. The water consumed by the production facilities in these regions dropped by approximately 6 percent. For example, in 2018, a new production facility was commissioned in Nigeria that consumes 15 percent less water than in 2016. In 2019 FrieslandCampina will adopt a global objective of a 2 percent reduction per tonne of water consumption per year and a 3 percent reduction per year effective from 2020.

Sustainable procurement of agricultural raw materials and packaging

The production of dairy products not only requires milk, but a wide range of other

agricultural raw and packaging materials as well. By 2020, FrieslandCampina aims to only purchase these materials from fully sustainably managed sources. Agricultural raw materials that are already (partially) purchased from sustainably managed sources include cocoa, soy oil, palm oil, coconut oil, cane sugar, beet sugar, starch and paper for packagings.

In 2018, the share of raw materials purchased from sustainably managed sources increased to 77 percent (2017: 55 percent).

FrieslandCampina in 2018 chose a packaging made from plant-based materials for its long shelf-life Chocomel. Apart from the cardboard packaging, produced from wood that for 100 percent originates from FSC-certified forests, the cap and the packaging's outer layer are also made from plants. On an annual basis, this comprises some 40 million containers. FrieslandCampina received a four-star certificate ('OK Biobased') from the accredited inspection and certification organisation Vinçotte for this packaging.

More sustainable dairy farms with Foqus planet

Making the dairy chain sustainable begins



REUSE OF PACKAGING MATERIALS

FrieslandCampina Vietnam reuses packaging materials. Tetra Pak, a supplier of packaging, takes back the packaging materials wasted during the start-up of a production run and the containers returned by the market. It then uses these materials to produce environmentally friendly roofing sheets. The production of these roofing sheets does not require any chemicals, only steam and high pressure. The roofing sheets replace high-risk asbestos roofing sheets and metal roofing sheets. The production facilities in Vietnam also make use of these recycled roofing sheets.

on the member dairy farms. Foqus planet is the mandatory quality and sustainability programme for member dairy farmers in the Netherlands, Belgium and Germany. The programme comprises four themes (farm, cow, feed and milk), each subdivided into three components:

1. Basic requirements: requirements relating to hygiene, milk quality and safety, and animal health and welfare.
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: six indicators for sustainable farming, such as energy consumption, the dairy cows' health and longer lifespan, and care of the landscape. Members who score high on these themes receive a bonus that is partially funded from a cooperative scheme.

Reducing greenhouse gas emissions on dairy farms

Approximately 90 percent of the total emission of greenhouse gases in the dairy chain originates on and around the dairy farms. In 2018, a module became available that assists dairy farmers in reducing the emission of greenhouse gases. They are encouraged to use this module through means of Foqus planet. In 2018, the emission of greenhouse gases on member dairy farms decreased by 4.9 percent to 11,651 kt CO₂ equivalent (2017: 12,248). The average greenhouse gas emission of a Dutch dairy farm was 1.13 kilos of CO₂ equivalent per kilo milk in 2018. This calculation was established by Wageningen Economic Research and FrieslandCampina research & development.

Dairy farms as producers of electricity

FrieslandCampina encourages dairy farmers to install solar panels on the roofs of their stables through means of its Solar Programme. In 2018, fifty solar roofs were installed at member dairy farms. In total, 772 member dairy farmers signed up for this programme. In 2019, 400 roofs will be fitted with solar panels.

VEGHEL PRODUCTION FACILITY – GREEN ELECTRICITY

Three bundles of cables, thick as a fist, with a total length of 54 kilometres buried in the ground; open excavations on the farmlands of five farms and 27-metre deep drillings: the FrieslandCampina Ingredients Veghel (in the Netherlands) site has been equipped with a new power supply driven by green electricity. The first phase of the PowerUp! Project was completed in October. The new power supply reduces the CO₂ emissions at the Veghel site by 20 percent.

"We are constantly working on making our production processes more sustainable," says Ad Snoeijen, Energy Officer at FrieslandCampina Veghel. "We process 1.5 billion kilos of milk and 1 billion kilos of milk-equivalent in cheese whey per year here. Processing, evaporating and drying that quantity of milk requires a great deal of energy. With this new power supply we are taking an important step in making our chain sustainable. That is one of FrieslandCampina's strategic objectives."





GREEN ELECTRICITY AT MARKEN

The locations of FrieslandCampina's member dairy farmers are perfectly suited for generating sustainable energy. On the Dutch island of Marken, dairy farmer Wim Terbouw is the only dairy farmer. His roof is completely covered with 437 solar panels: this not only makes his operation completely energy-neutral in terms of his power supply, but he also supplies 26 household on the island with green electricity! A good example of sustainable cooperation within the local community.

FrieslandCampina encourages the use of mono-manure digesters through means of the Jumpstart Cooperative. The project was started in October 2016. After an initial start-up period, eight installations were successfully operating that last year achieved an 8 kt reduction in CO₂ emissions. It is expected that the number of installations will grow over the coming years.

Longer lifespan for cows

Proper care of the cow means that the cow lives longer, requires less medicines and produces quality milk. This also applies to the cow's lifespan. In 2011 (reference year), the

average lifespan of a cow in the Netherlands was five years, eight months and eleven days. At year-end 2018, the average lifespan was five years, six months and fourteen days. This represents a decrease of eight days in comparison to 2017. The reason for this decline was the mandatory reduction of the livestock herd due to the phosphate legislation, whereby not only older cows were culled. It is expected that from 2019, the lifespan will increase once the effect of the phosphate legislation is behind us.

The cow's ability to achieve a long lifespan starts with the first months of life. The KalfOK

programme, initiated in 2018, provides assistance in improving the quality of the calf rearing process.

Pasture grazing

To encourage members to allow their cows to graze in a pasture, they receive a premium on the milk price. In 2018, 81.2 percent of FrieslandCampina's member dairy farmers in the Netherlands practised some form of pasture grazing. In this year, the number of dairy farms practising pasture grazing increased by 303. As such the objective for 2020 has been reached.

Biodiversity

Biodiversity, diversity in living, is important to the world. FrieslandCampina's members are compensated for their contribution to preserving flora and fauna. Dairy farmers can use the Biodiversity Monitor to start working with indicators relating to climate, life cycle management and nature. They are encouraged to implement measures designed to improve biodiversity through theme sessions and study groups. In 2018, 55.6 percent of dairy farmers had insight into the Biodiversity Monitor scores. Many member dairy farmers devote effort to nature and landscape management through means of management agreements with third parties. BoerenNatuur, a Dutch national farmers' organisation, has created a country-wide system to safeguard nature and landscape management areas.

Sustainable development through partnerships

You cannot achieve sustainability all by yourself. Cooperation with partners is the key

PROSPECTS IN CHINA

In China FrieslandCampina is working together with the China Foundation for Poverty Alleviation, helping poverty groups to improve their own lives. The so-called Rural Revitalisation is a top priority for the government in China and FrieslandCampina has been providing assistance to this initiative for the past three years. For example, 3,000 young women are being trained to become maternity and home help matrons (Loving Yuesaos as they are called). Farmers in China benefit from the Farmer2Farmer programme in which Dutch dairy farmers train and advise Chinese farmers on breeding, milking and feeding their cows.



to success. FrieslandCampina therefore works together with other parties in the Sustainable Dairy Chain (www.duurzamezuivelketen.nl) on climate-neutral development, continuous animal welfare improvements, and preserving pasture grazing, biodiversity and the environment.

International sustainable dairy sector

Just like consumers, key international customers are increasingly demanding sustainably produced products. Dairy producers and customers have joined forces for the purpose of developing a global sustainability standard. In 2013, the international dairy sector launched the Dairy Sustainability Framework (DSF) for the purpose of coming up with a common language for defining the sustainability of dairy products. The DSF comprises eleven sustainability themes. In 2018, pilots were conducted in four regions to test this methodology.



COWS IN THE MEADOW

Cows are meadow grazing on 81.2 percent of member dairy farms. Despite the dry summer, FrieslandCampina achieved its target two years earlier than planned. In 2018, another 303 member dairy farmers chose to let their cows graze in their pasture.

Frans Keurentjes, Chairman Zuivelcoöperatie FrieslandCampina U.A.: "As a sector, we have every reason to be proud that we succeeded in growing the number of cows grazing in pastures. This means that we have achieved the sector target set for 2020 well in advance. Especially since the unusual hot and dry summer in 2018 made pasture grazing significantly more difficult. The fact that we succeeded has everything to do with the professionalism of the Dutch dairy farmer. Furthermore, they like to contribute to the visibility of the cow in the Dutch landscape. The consumer's readiness to pay a little extra for this provides an additional stimulus."

NOW AND FOR GENERATIONS TO COME

	2018	2017	Δ%
Sustainable production			
Greenhouse gas emissions from production and transport (kt CO ₂ equivalent)	811	888	-8.7
Green electricity (percentage of total electricity consumed by production facilities)	90	80	
Energy consumption (GJ/tonne product)	2.8	2.8	-
Water consumption (m ³ /tonne end product) ¹	3.54	3.40	4.1

Sustainable procurement of raw materials

Sustainable agricultural raw materials (percentage of total volume of raw materials)	77	55	
Greenhouse gas emissions of procurement of milk, milk powder, whey from third parties (kt CO ₂ equivalent)	3,822	3,866	-1.1

Dairy farming

Greenhouse gas emissions by member dairy farms (kt CO ₂ equivalent)	11,651	12,248	-4.9
Cow's average lifespan (years-months-days)	5-6-14	5-6-22	
Pasture grazing (percentage member dairy farms in the Netherlands applying a form of pasture grazing)	81.2	79.4	
Sustainable soy (share of RTRS-certified soy in feed concentrates for cows as a percentage of total)	100	100	

Attractive employer

Percentage of women in management positions	22.7	23.1	
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Safety

Accident ratio (number of accidents per 200,000 hours worked) ²	0.37	0.55	-32.7
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¹ The scope is the Middle East, Africa and Asia.

² Engro Foods was added to the scope in 2018.

Science

Zuivelcoöperatie
FrieslandCampina U.A.'s
member dairy farmers

Non-governmental
organisations (NGOs) and
interest groups

Government
bodies and local
authorities

In dialogue

In 2018, FrieslandCampina committed to increasing awareness of the value chain by engaging stakeholders in dialogue. The company works together with partners in the dairy sector, as well as outside the dairy sector. This includes suppliers and companies in the dairy and energy sectors, and in the areas of waste treatment, consultancy, transport and water purification, as well as government organisations. Together with universities and universities of applied science, research is being conducted into more sustainable production methods. In addition, FrieslandCampina regularly engages in dialogue with social parties and organisations.



**KEES BLOKLAND,
AGRITERRA**

'Sharing
knowledge
is tremen-
dously
stimulating'

He firmly believes in cooperatives, in combining strengths, in setting up a business together and reaping the benefits: Kees Blokland, founder of Agriterra and the current Managing Director. Agriterra is an Agri Agency, as they like to call themselves, that helps cooperatives throughout the world to mature and to stand on their own two feet.

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Blokland's grandfather in Hoornaar in the Province of Zuid-Holland was a board member of the dairy cooperative Giessen-Oudekerk, a distant forerunner of FrieslandCampina. "Although this is now a long time ago, it still makes me feel as if we own a small part of FrieslandCampina," he says. In 2012, Agriterra and FrieslandCampina established a partnership whereby the knowledge of FrieslandCampina's employees and member dairy farmers is used to help cooperatives throughout the world to get started. "We are allowed to send out FrieslandCampina's employees for short periods of time to the cooperatives we are assisting. Experts in the field of logistics, finance, human resources: these always are people who possess a great deal of knowledge and who want to share that knowledge." In addition, we also send out dairy farmers for the purpose of knowledge sharing. These dairy farmers do this in the context of the partnership with Agriterra and the Dairy Development Programme. "The knowledge and experience of FrieslandCampina's members provide a tremendous boost to the development of the dairy farming sector in the involved countries. Furthermore, our cooperatives are active in every conceivable field of endeavour: ranging from the coffee trade to processing agricultural products."

Cooperation

Agriterra, an organisation that originally provided financial assistance, has increasingly shifted its focus to providing consulting services, training and exchanges. "The best way to help people become independent is to teach them how to set up their own business. When people are able to set up a business plan themselves and know how to make a company profitable, they will always be able to do so. On behalf of the European Union I am a member of the Task Force Rural Africa which is involved in the relationship between Europe and Africa and the development of the African countryside. Agriterra's way of working, by exchanging knowledge, is becoming a trend, a model that serves as a basis for internationally working together with developing countries."

Sublime system

Cooperatives in developing countries can also contribute to increasing food production. "The world population is growing and more food is needed. The challenge is to do this in sustainable ways. What we are accomplishing here in Northwest Europe in relation to food production is unimaginable. We are producing - and exporting - agricultural products in a highly efficient way with the least possible CO₂

emissions. Since the fifties of the last century people have worked on steadily building a sublime food system. If we were to decrease our production in Northeast Europe and other countries would have to make up the slack on this scale, CO₂ emissions would increase considerably. Not only in the Netherlands, but throughout the world. We have the very best there is here. For Agriterra it is an honour to be allowed to work with FrieslandCampina as a partner. This creates unbelievably much added value. I am extremely proud of this."

Agriterra helps agricultural cooperatives and organisations develop professionally in twenty countries in Africa, Southeast Asia and South America. The organisation for this purpose works together with agricultural organisations in the Netherlands, as well as with banks and interest groups, such as the Dutch Federation of Agricultural and Horticultural Organisations (LTO).



ELEVATE OUR ESSENTIALS

Frico cheese in Japan

Tokyo, Japan's capital with millions of inhabitants. You will find a pure Dutch delicacy in some supermarkets and small shops here: Frico cheese. FrieslandCampina has been doing business in Tokyo for years: with the food branch of the immense Mitsubishi Corporation and with the family business Nosawa. "And with success. Our sales in Japan have quadrupled over the past few years," Hans Janssen, Sales Manager, tells us proudly. "We are working on profitable cheese positions."

The Nosawa family company has been doing business with FrieslandCampina and its predecessors since 1931. "A long-term relationship," Hans acknowledges. "Long-term relationships are important to our Japanese customers. It's all about loyalty, trust and respect." Nosawa is not the only company in Japan doing business with FrieslandCampina. Mitsubishi (well-known for its cars, lifts and air conditioners) also owns a group that produces and trades foods and beverages for the Japanese market.

In pizzas

"Mitsubishi is a large buyer. Our cheese is processed in pizzas and all kinds of Italian dishes. Japanese citizens are consuming increasingly more cheese. On average they eat 2.4 kilos cheese per resident per year. This is still far from the average amount consumed by residents of the Netherlands, Denmark or Germany, but while the consumption of cheese in Europe is stagnating, it continues to grow in Japan. The firm Nosawa grates and cuts our products into small cubes, which are then packaged, and sells cheese to the food industry. However, they also sell our Frico cheese in supermarkets and small shops. The small cubes of cheese are packaged as an assortment palette: delicious with a glass of wine."

Many opportunities

Hans Janssen and the entire Cheese business-to-business team perceive plenty of opportunities for increasing sales through means of export. "Export enables us to spread the opportunities for growth and any risks. We are now establishing contact with the clients of our customers. In addition to the retail market, Nosawa and Mitsubishi also serve the business-to-business market in Japan. When we are able to engage their clients in discussion, we learn a great deal about their wishes and the trends they are observing in the Japanese cheese market. This helps us produce products that even better respond to their wishes and requirements. Japan truly is a very interesting market."



THE CORE OF COOPERATIVE ENTERPRISE:

The collective before the individual

Eefje Bouma, a young dairy farmer and member of the cooperative, hosted CEO Hein Schumacher in Oosterlittens in the Province of Friesland at the beginning of January. Together with her parents, Eefje (26) runs a dairy farm with 220 cows. Last year she was an active member of FrieslandCampina's Youth Committee in which she demonstrated, just as she does on the dairy farm, that the future belongs to sustainability. For this practical Frisian, the cooperative is of inestimable value, but at the same time she has questions about the company's new strategy.

Following a brief introduction, the discussion around the kitchen table quickly gets down to business. Eefje puts a current topic on the table that preoccupies members these days. "The balanced growth, including the discount scheme, we agreed on in December within FrieslandCampina has caused a buzz among some members. We always kept a sharp eye on our costs, so we'll absorb the 10 cents. But for other members, who just invested a large amount, this can become a problem." Hein indicates that he sympathises with the difficult circumstances some dairy farmers may find themselves in, but at the same time does not think it will get all that bad. "The room for growth in 2019 is expected to be more than the 1.5 percent. We consider the

collective: only once the total milk supplied exceeds the growth standard in relation to the reference point, are we forced to potentially make use of the discount for individual members. However, I expect that we will only need to apply this on a limited basis or not at all in 2019." Eefje is aware that the members of FrieslandCampina are among the best paid dairy farmers in Western Europe. "The cooperative is of great value to us. However, I know farmers who would like to milk more cows and who are surprised by this potential discount. And that is not the only thing we are faced with: there are the phosphate rights, climate targets and the ammonia regulations. All external factors that make farming an uncertain business."



Hein Schumacher
Chief Executive Officer



Eefje Bouma
Dairy farmer

THE MERITS OF MILK

Hein: "I consider *The Merits of Milk* as the cooperative's strategy, which links the company's plans to the dairy farmers' goals. It is perfectly in line with the company's new strategy formulated in 2018: *Our Purpose, Our Plan.*"

"2019 will be a year of implementing and doing."

Cooperative Dilemma

The plan for realising balanced growth is not a standalone plan. It forms part of the broader company goals that rest on three pillars: focus on sustainability, flexible milk streams and balanced growth. "Conceived and implemented in order to create more value for members. Winning in the market is the leading motive. While people currently are primarily zooming in on balanced growth, which is perfectly understandable, this is only part of the picture. Consumers demand special, sustainably produced dairy products that we can supply by offering a variety of milk streams. This requires considerable investments. Furthermore, we must secure the long-term future of the entire chain and this is why we must grow responsibly. I say this on the basis of my responsibility as CEO, but I understand that this also makes a strong appeal to the solidarity of the cooperative."

Eefje endorses the need for producing a greater variety of milk streams. But she is asking questions about the ultimate implementation. "We meet all of the requirements to be able to supply milk under the conditions of the 'On the way to PlanetProof' label, but we fall outside the supply area as a result of which we are unable

to participate. And we are not the only one. I hope that a way will be found for more dairy farmers to be given the opportunity of participating." According to Hein this is a cooperative dilemma. "By specialising the milk streams you make a distinction and offer opportunities to a part of the group that strengthens the collective. This appears to gnaw away at the cooperative's basic principles, while you are in fact doing this to make it stronger. There will be opportunities for members in other regions to join other milk streams. This requires time."

2018 - a year of transition

Looking back on 2018, what are the dairy farmer's impressions? "Our focus was on additional litres. And we were very successful in this regard. The stable, favourable guaranteed price meant we achieved a good result. However, the performance premium lagged expectations. For a special cooperative with a great deal of "farmers' money", which is used for investments, you also expect a higher performance premium." 2018 was an important transition year for the company. With its new strategy, FrieslandCampina went down a path that provides for greater momentum and that creates the conditions necessary for bringing

profitability back up to par. "A transformation like this requires time," Hein indicates. "The results relating to basic dairy, particularly in the first half of 2018, were insufficient to compensate for the guaranteed price. This lowered the company's result. Our volumes were under pressure and the results were not what we would have liked. In the second half of 2018, we saw the first signs of improvement as a result of the transformation. But it is not realistic to expect that over the short term we will be able to pay a 4 cent performance premium per kilo milk. There are structural developments that adversely affect us. The Russian market remains closed, the global supply of milk has risen by 22% since 2015 and China has moved from being a growth market with high margins to a stable market in which we have to invest a great deal in order to overcome the severe competition."

The transformation has caused a great deal of upheaval within the company. Hein would like to limit the number of new initiatives over the coming year. "2019 will be an implementation year, a year of doing what has been set out and what has been agreed upon. The new plans must become the 'new normal'." Eefje believes that the promised 'quiet time' will be good for the dairy farmers. "In this respect I

hope that everyone will have the room needed to gradually adjust their operation. That dairy farmers will be able to implement the necessary measures on their farm at their own pace and thus will have the opportunity to continue to strengthen the cooperative." Hein: "I fully agree. I would like to serve all members as best as possible and retain them for FrieslandCampina."

Sustainable image

Lead with sustainability is an important pillar supporting FrieslandCampina's new strategy. How does a dairy farm in Oosterlittens contribute to this? The 250 solar panels on the stable's roof - enough to generate 55,000 kWh - are solid proof that this dairy farm puts its money where its mouth is as far as sustainability is concerned. "People like to see you as a family business that lives in harmony with nature. That supplies milk as a pure natural product. We nourish that image. For example, we own land on the other side of the village and we regularly need to drive through the streets with our tractor. To compensate for this we do something for the community in return by allowing lambkins to graze on the skating terrain. Environmental care has been profitable up to now for our farm. On a 10 hectare field plot with wetlands (wet areas;

ed.) and a period of dormancy we are trying to raise fifty fully-fledged black-tailed godwits. Such contributions to biodiversity cost money, but is in line with how we want to run our farm. If all of us within the cooperative do our part it is easily possible for each dairy farm to carry the investments in sustainability. And it produces a great deal of goodwill for us as a sector."

"A perfect example of how FrieslandCampina would like to lead with sustainability," Hein enthusiastically responds. "A combination of contributing to a better climate, animal well-being, stimulating biodiversity and maintaining the Dutch cultural landscape. With consideration for the interests of your

immediate environment." It is its tradition of family farms that makes FrieslandCampina such a strong Dutch quality brand. "Perhaps this is self-evident to us, but abroad this high standard is very valuable. And we sell by far most of our dairy products abroad. Investing in sustainability lifts our head start in quality to a higher level. By leading in this area, we once again distinguish ourselves in the Netherlands, as well as internationally," Hein asserts. "At times you have to persist over the long term," says Eefje: "We are not always portrayed well in the media. A negative article can damage your reputation in so many ways. This requires consistent actions on the part of every member of our cooperative and to show that we are making progress in the area of sustainability."

MOVING ALONG WITH DEMAND

Hein is of the opinion that FrieslandCampina needs to become more versatile. Eefje is wondering what he means by this and what he expects from members? Hein: "That we need to better anticipate consumer demand by providing more different milk streams. In my view, we need to listen to our customers in order to exploit market opportunities. The cooperative must become more demand-driven as well. Rapidly anticipating market demand requires dairy farmers who are prepared to move along with the market, in other words who are versatile."



Our employees

FrieslandCampina's people make all the difference and contribute to our sustainable success. This is why the company aims to create a working environment in which employees feel safe and appreciated, and in which they are committed. A working environment that helps them perform to the best of their ability. Employees are challenged to identify improvements and to act on them. This concerns safety solutions, quality improvements, innovation, entrepreneurship and contributing to sustainability. *Our Purpose, Our Plan* creates focus and inspires everyone to perform to the best of their abilities.

In 2018, a programme relating to a new working culture was initiated in support of the new organisation structure. It gives priority to 'winning': purpose-driven, commercially obsessed and with an owner's mind set. What employees think about the change was measured through means of a worldwide survey over2you, at the end of 2018. in which 85 percent of employees shared their opinion. The results show that 81 percent of employees is of the opinion that the organisation is implementing the necessary changes. The focused recruitment, development and retention of talent is crucial for FrieslandCampina to continue to be successful. To increase the company's appeal on the global labour market, the company initiated the 'Jobs that Matter' campaign in six countries in 2018. The campaign will be continued in 2019.

Safety

Safety in the workplace is and remains a key theme at FrieslandCampina. In 2018, the company transitioned from reporting 'Lost Time Accidents' (accidents whereby the affected person is unable to come to work the next day) to reporting the total number of accidents*. This means that attention now is focused on all accidents, not just the most serious ones. In 2018, the total number of accidents decreased by 14 percent to 145 accidents (2017: 169). The total number of accidents per 200,000 hours worked dropped from 0.55 to 0.37. It is our aim to have everyone work safely, such that there no longer are any accidents.

Compass

In 2018, FrieslandCampina once again focused the attention of employees on Compass, its Code of Conduct for good business behaviour, and on the Speak Up procedure. Compass covers 14 topics, such as sustainability, people and food safety, honest business practices and human rights.

Honest business practices

A significant portion of FrieslandCampina's revenue is realised in countries where, in view of their low score on the Corruption Perceptions Index of Transparency International, honest business practices are at risk. FrieslandCampina aims to limit these risks, for example by training employees. The company adheres to honest business practices and patently rejects any form of bribery.

Human rights

Internationally recognised human rights, such as the right of employees to join recognised trade unions, are respected and supported. The basic principles adhered to in this respect are set out in the OECD Guidelines for International Companies, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Human Rights Declaration.

A safe environment also means that there must not be any form of discrimination or bullying. Child labour and forced labour are not tolerated. FrieslandCampina contributes to banning these practices and expects its business partners to do the same. In 2018, FrieslandCampina started work on developing a Human Rights policy that will be further fleshed out in 2019.

* 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'.

Number of employees		
Average number of FTEs	2018	2017
Consumer Dairy	13,610	13,752
Specialised Nutrition	2,348	2,241
Ingredients	3,248	3,060
Dairy Essentials	2,763	2,684
Corporate & Support	1,800	1,938
Total	23,769	23,675

KEY FIGURES

	2018	2017	Δ%
Better nutrition			
Product composition (as a percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards)	66	64	
A good living for our farmers			
<i>In millions of euros, unless stated otherwise</i>			
Revenue	11,553	12,110	-4.6
Operating profit	342	444	-23.0
Profit for the year	203	227	-10.6
Operating profit as a % of revenue	3.0	3.7	
Value creation for member farmers in euros per 100 kilos of milk ¹			
Guaranteed price	36.05	37.96	-5.0
Milk price	37.43	40.01	-6.4
Performance price	38.60	41.80	-7.7
Dairy Development Programme (DDP)			
Local farmers who participate in a training programme (number)	80,216 ²	20,347	294.2
Now and for generations to come			
Greenhouse gas emissions from production and transport (kt CO ₂ equivalent)	811	888	-8.7
Greenhouse gas emissions by member dairy farms (kt CO ₂ equivalent)	11,651	12,248	-4.9
Green electricity (percentage of total electricity consumed by production facilities)	90	80	

CONSOLIDATED INCOME STATEMENT

<i>In millions of euros</i>	2018	2017
Revenue	11,553	12,110
Cost of goods sold	-9,761	-10,191
Gross profit	1,792	1,919
Advertising and promotion costs	-540	-536
Selling and general administrative costs	-867	-867
Other operating costs	-71	-155
Other operating income	28	83
Operating profit	342	444
Finance income	45	10
Finance costs	-52	-68
Share of profit of joint ventures and associates, net of tax	22	21
Profit for the year	357	407
Income tax	-154	-180
Profit for the year	203	227
Profit attributable to:		
• holders of member bonds	47	44
• provider of Cooperative loan	9	9
• shareholder	74	143
Shareholder and other providers of capital	130	196
Non-controlling interests	73	31
Profit for the year	203	227

¹ Excluding VAT at 3.47% protein, 4.41% fat and 4.51% lactose.
² The sharp increase in the total number of trained local farmers in DDP countries is due to the inclusion of training programmes carried out in Pakistan and Romania, and a one-year project in Nigeria.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December, in millions of euros	2018	2017
Assets		
Property, plant and equipment	3,282	3,208
Intangible assets	1,708	1,757
Biological assets	8	8
Deferred tax assets	229	301
Joint ventures and associates	124	123
Employee benefits	8	10
Other financial assets	47	42
Non-current assets	5,406	5,449
Inventories	1,367	1,518
Trade and other receivables	1,636	1,655
Income tax receivable	34	29
Other financial assets	21	35
Cash and cash equivalents	356	356
Assets held for sale	2	4
Current assets	3,416	3,597
Total assets	8,822	9,046
Equity		
Issued capital	370	370
Share premium	114	114
Other reserves	-282	-236
Retained earnings	1,102	1,039
Equity attributable to shareholder	1,304	1,287
Member bonds	1,610	1,596
Cooperative loan	295	295
Equity attributable to shareholder and other providers of capital	3,209	3,178
Non-controlling interests	343	334
Total equity	3,552	3,512
Liabilities		
Employee benefits	433	475
Deferred tax liabilities	130	181
Provisions	14	14
Interest-bearing borrowings	1,035	999
Other financial liabilities	66	109
Non-current liabilities	1,678	1,778
Interest-bearing borrowings	616	661
Trade and other payables	2,741	2,891
Income tax payable	142	138
Provisions	86	62
Other financial liabilities	7	4
Current liabilities	3,592	3,756
Total liabilities	5,270	5,534
Total equity and liabilities	8,822	9,046

CONSOLIDATED STATEMENT OF CASH FLOWS

In millions of euros	2018	2017
Cash flows from operating activities		
Profit before tax	357	407
Adjustments for:		
• interest	27	35
• depreciation of plant and equipment and amortisation of intangible assets	362	368
• impairments of non-current and intangible assets and reversals of impairments	22	75
• impairments of other financial assets		27
• share of profit of joint ventures and associates	-22	-21
• other finance income and costs	-29	15
• issue of member bonds	14	32
• gain on disposals	-6	-72
• insurance compensation granted for material damages		-10
Total adjustments	368	449
Movements in:		
• inventories	162	-57
• receivables	50	-89
• liabilities	-178	-94
• employee benefits	-36	-46
• provisions	24	26
Total movements	22	-260
Cash flows from operating activities	747	596
Dividends received	23	22
Income tax paid	-120	-162
Interest paid	-40	-49
Interest received	9	11
Net cash flows from operating activities	619	418
Investing activities		
Investments in property, plant and equipment and intangible assets	-485	-530
Disposals of property, plant and equipment, intangible assets and assets held for sale	13	25
Divestments of businesses, net of cash and cash equivalents		71
Received repayments of loans issued	16	4
Loans issued	-1	-14
Acquisitions, net of cash and cash equivalents acquired	-37	-7
Investments in and divestments of securities		31
Insurance compensation received for material damages	4	6
Net cash flows used in investing activities	-490	-414
Financing activities		
Dividend paid to holders of member bonds and non-controlling interests	-63	-103
Interest paid to holders of perpetual bonds and member bonds	-42	-37
Interest-bearing borrowings drawn	851	1,886
Repayment of interest-bearing borrowings	-843	-1,843
Transactions with holder of put option		-8
Payment of contingent consideration		-17
Investments in non-controlling interests	-2	
Settlement of derivatives and other	-2	6
Net cash flows used in financing activities	-101	-116
Net cash flow	28	-112
Cash and cash equivalents at 1 January ¹	193	354
Net cash flow	28	-112
Currency translation differences on cash and cash equivalents	3	-49
Cash and cash equivalents at 31 December ¹	224	193

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

FINANCIAL HISTORY

In millions of euros, unless stated otherwise	2018	2017	2016	2015	2014
Key figures					
Income statement					
Revenue	11,553	12,110	11,001	11,210	11,348
Operating profit	342	444	563	576	489
Profit for the year	203	227	362	343	303
Guaranteed price	36.05	37.96	28.38	30.68	39.38
Performance premium in euros per 100 kg	0.46	1.03	2.19	2.25	1.86
Issue of member bonds in euros per 100 kg	0.13	0.30	1.25	1.28	1.07
Meadow milk premium per 100 kg of milk	0.63	0.60	0.29	0.29	0.29
Special supplements in euros per 100 kg	0.16	0.12	0.15	0.14	0.10
Milk price in euros per 100 kg	37.43	40.01	32.26	34.64	42.70
Financial position					
Balance sheet total	8,822	9,046	9,318	8,421	7,676
Equity attributable to the shareholder	1,304	1,287	1,309	1,108	991
Equity attributable to the shareholder and other providers of capital	3,209	3,178	3,169	2,832	2,587
Net debt	1,287	1,400	1,225	1,108	981
Cash flows					
Net cash flows from operating activities	619	418	850	1,019	554
Net cash flows used in investing activities	-490	-414	-955	-705	-627
Depreciation of plant and equipment and amortisation of intangible assets	362	368	307	275	231
Additional information					
Equity as a % of total assets	36.4	35.1	34.0	33.6	33.7
Employees (average number of FTEs)	23,769	23,675	21,927	22,049	22,168
Milk supplied by members (in millions of kg)	10,375	10,716	10,774	10,060	9,453

Overview
Supervisory Board



Frans Keurentjes
Chairman
Chairman of the Board, Dairy Farmer



Erwin Wunnekink
Vice-chairman
Vice-chairman of the Board, Dairy Farmer



Sandra Addink-Berendsen
Member of the Board, Dairy Farmer



Wout Dekker
External



Bert ten Doeschot
Member of the Board, Dairy Farmer



Tex Gunning
External



Hans Hettinga
Member of the Board, Dairy Farmer



René Hooft Graafland
External



Cor Hoogeveen
Member of the Board, Dairy Farmer



Angelique Huijben-Pijnenburg
Member of the Board, Dairy Farmer



Gjalt Mulder
Member of the Board, Dairy Farmer



Hans Stöcker
Member of the Board, Dairy Farmer



Ben van der Veer
External

Overview Executive Leadership Team



Hein Schumacher
Chief Executive Officer
Executive board



Jaska de Bakker
Chief Financial Officer
Executive board



Roel van Neerbos
President FrieslandCampina
Consumer Dairy



Berndt Kodden
President FrieslandCampina
Specialised Nutrition



Hans Meeuwis
President FrieslandCampina
Dairy Essentials



Kathy Fortmann
President FrieslandCampina
Ingredients



Rahul Colaco
President FrieslandCampina
China



Geraldine Fraser
Corporate Director FrieslandCampina
Human Resources



Margrethe Jonkman
Global Director FrieslandCampina
Research & Development



Roman Scieszka
Corporate Director FrieslandCampina
Supply Chain

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Milk, yoghurt, quark and cheese: dairy products that millions of people across the world serve as part of their meals. At FrieslandCampina we create these wonderful products - and much more - from milk; for young and old, each and every day, with a passion for healthy nutrition.

FrieslandCampina is a cooperative of member dairy farmers. Their entrepreneurship and professionalism, as well as that of our employees, guarantees quality and safe products. Together we manage the complex production chain: from grass to glass.

