FrieslandCampina
nourishing by nature

Annual Report 2016

Royal FrieslandCampina N.V.

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Explanatory note
The financial results and the key developments of Royal FrieslandCampina N.V. (hereinafter referred to as FrieslandCampina) for the year 2016 are presented in this Annual Report.

The financial statements have been drawn up as at 31 December 2016. The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union and, insofar as this is applicable, in accordance with Part 9 Book 2 of the Dutch Civil Code.

The 2016 milk price that the members of Zuivelcoöperatie FrieslandCampina U.A. receive for the milk they supply is determined on the basis of the FrieslandCampina 2014-2016 milk pricing methodology. All amounts in this Annual Report are in euros, unless specified otherwise.

This Annual Report contains statements about future expectations. These statements are based on current expectations, estimates and projections of the management of FrieslandCampina and information that is currently available. The expectations are uncertain and contain elements of risk that are difficult to quantify. FrieslandCampina therefore does not provide any certainty that the expectations will be realised.

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

The Annual Report of Royal FrieslandCampina N.V. is also available on the website www.frieslandcampina.com.
A copy of the Annual Report may be requested from the Corporate Communication department of FrieslandCampina: corporate.communication@frieslandcampina.com.

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

Per hour, FrieslandCampina processes 1.2 million kilos of milk produced at member dairy farms. 24 hours per day, 7 days per week. This creates a tremendous dynamic.

The milk is used to manufacture valuable foodstuffs and ingredients that respond to the needs of customers and consumers throughout the world. That's captivating.

Better nutrition and a good living for our farmers, now and for generations to come. That's the challenge.

A word from the CEO

Dear Reader,

Viewed from a geopolitical perspective, 2016 was a turbulent year for the world, as well as for the European dairy sector and for FrieslandCampina. Political and economic instability has increased in North Africa and in the Middle East, in part due to the low oil prices. Attacks in various countries have created major unrest and uncertainty. Protectionism is increasing; many countries are trying to protect their own industry against international competition. The undermining of free trade is an undesirable development for FrieslandCampina as a multinational and an exporter.

Rising profits

2016 also was a year with two faces. In the first half of the year, the supply of milk in the European Union (particularly in the Netherlands and Ireland) was of such magnitude that basic products generally could only be sold below cost price. Starting in May, the dairy sector recovered somewhat due to declining milk production in a number of European countries and the relatively low stocks held by buyers. FrieslandCampina anticipated this development by introducing timely price increases in the cheese and butter segment. The growth in volume of added-value products and considerable cost savings significantly contributed to the 5.5 percent increase in profit.

Growth in milk volume

In spite of the increase in profit, the milk price for FrieslandCampina's member dairy farmers declined by 6.9 percent to 32.26 euros per 100 kilos of milk due to the strong increase in milk production and the low guaranteed price. Particularly during the initial months of 2016, milk production increased rapidly. A high proportion of the increased milk volumes was processed into basic products. Due to the full utilisation of production capacity, milk was also temporarily sold below the guaranteed price on the spot market. The low guaranteed price and the persistent lack of clarity concerning the effective date of the phosphate legislation in the Netherlands, and the associated determination of a reference point, were a reason for many member dairy farmers to continue to produce milk in abundance.

Due to the growth of the Dutch dairy farming sector in 2015 and 2016, the phosphate ceiling was exceeded and is in danger of being exceeded again in 2017. At the end of 2016, a sector plan was agreed on that is meant to significantly reduce phosphate production in 2017. This sector plan is painful for dairy farmers, because dairy cattle will have to be removed, which will have a negative impact on the magnitude of milk production on the farm. However, over the longer term it is necessary to continue to comply with the European environmental requirements and to develop a more sustainable dairy farming sector.

Nourishing by nature

2016 also was the year in which the updated FrieslandCampina *route2020* strategy was launched with *nourishing by nature* as its guideline: better nutrition for the world's consumers, a good living for our farmers, now and for generations to come. *Nourishing by nature* provided clear direction in its first year and is highly consistent with the Sustainable Development Goals of the United Nations.

All FrieslandCampina consumer products have been assessed on the basis of the refined FrieslandCampina Global Nutritional Standards. Good steps have been taken and even more products have been selected for which the sugar, salt and calorific contents will be reduced over the coming years. Newly developed consumer products must meet the nutritional criteria. This enables FrieslandCampina to offer better products.

Other important choices concern measures designed to stay competitive and as such contribute to the income of member dairy farmers. Programmes are underway in many business units with the objective of further increasing efficiency and reducing costs.

Successes and disappointments

A lot has happened in 2016. With the acquisition of a 51 percent interest in Engro Foods in Pakistan at the end of December, FrieslandCampina is entering a large dairy market in Central Asia. Additional investments were made in safety, quality, capacity and sustainability. We experienced growth in Southeast Asia and China due to our focus on the key product market combinations. In spite of difficult market conditions, we succeeded in further expanding our position in the Middle East. Innovation has contributed to renewal in the prioritised markets, improvements in production methods and more sustainable production.

Some things did not go as well in 2016. The results in Germany and Africa are disappointing. Decision-making processes often require too much time and some systems are insufficiently integrated. Investments in large projects often incur delays due to the underestimation of complexity. Learning from our mistakes continues to be important in order to be able to realise improvements in the future.

Sustainability in the chain

Positive steps have been taken relating to sustainability, but not yet all objectives are being realised. Especially reducing the emission of greenhouse gases requires attention in order to be able to realise the climate-neutral growth objective. This is why FrieslandCampina in 2016 undertook various measures, including the creation of the Jumpstart cooperative, an initiative relating to mono manure fermentation. Manure fermentation contributes to reducing the emission of greenhouse gases, including methane.

2017 priorities

Even better exploiting and providing insight into the nutritional value of our dairy products form the basis for the successful valorisation of the milk of our member dairy farmers. In 2017, the timely anticipation of rapid changes in the market and society is key. In this respect we will have to make clear choices in order to achieve acceleration in the priority product-market combinations in which we can best valorise the milk. Further improvement in the gross profit and the cash flow is the basic underlying principle in this respect.

Thanks

I would like to thank our employees on behalf of the entire Executive Board. Due to their high level of commitment and effort, FrieslandCampina has succeeded in effectively anticipating the market's and society's dynamic. The quality of each link in the chain, from dairy farmer to consumer, is a determining factor for the success of the entire chain. The control FrieslandCampina has over this entire chain – *from grass to glass* – gives it a strong starting point.

Roelof Joosten
Chief Executive Officer
Royal FrieslandCampina N.V.

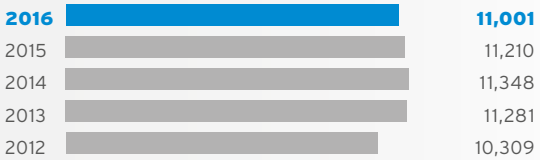
Amersfoort (Netherlands), 24 February 2017

Key figures

Revenue

11.0
billion euros

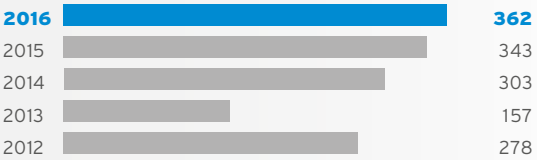
Revenue in millions of euros



Profit

362
million euros

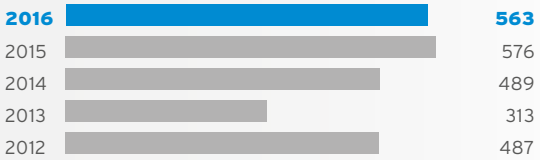
Profit in millions of euros



Operating profit

563
million euros

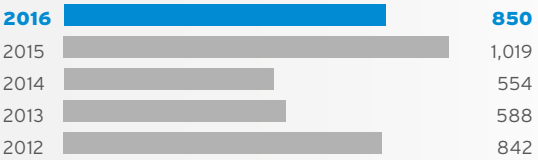
Operating profit in millions of euros



Operational cash flow

850
million euros

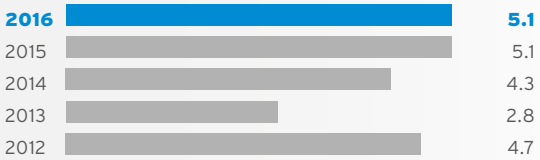
Operational cash flow in millions of euros



Operating profit as a % of revenue

5.1%

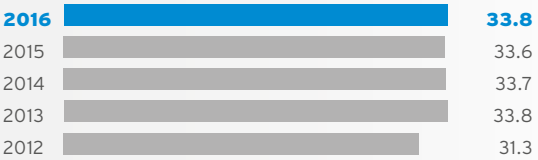
Operating profit as a % of revenue



Solvency

33.8%

Equity as a % of total assets

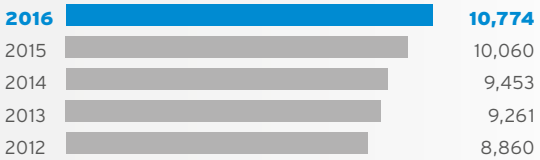


Milk supplied by member dairy farmers

10.8

billion kilos

Milk supplied by member dairy farmers in millions of kilos

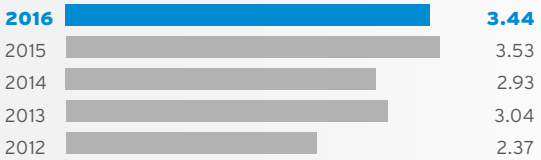


Value creation for member dairy farmers

3.44

euros per 100 kilos of milk

Value creation in euros per 100 kilos of milk

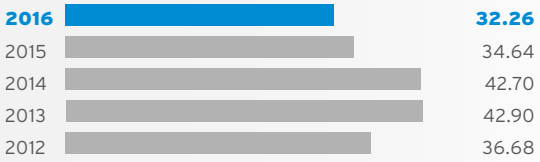


Milk price for member dairy farmers

32.26

euros per 100 kilos of milk

Milk price in euros per 100 kilos of milk

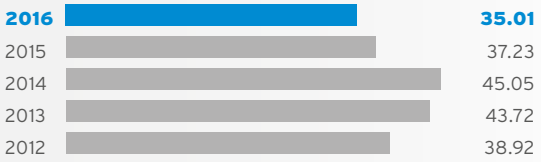


Performance price company

35.01

euros per 100 kilos of milk

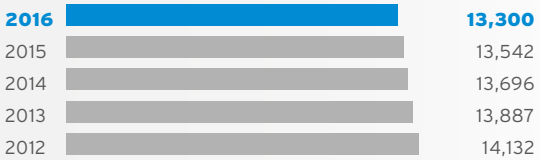
Performance price in euros per 100 kilos of milk



Member dairy farms

13,300

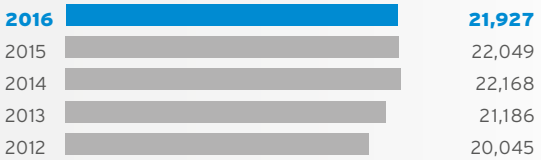
Member dairy farms (end of year)



Employees

21,927

Employees (average number of FTEs)



Key figures

in millions of euros, unless stated otherwise	2016	2015	Δ%
Results			
Revenue	**11,001**	11,210	-1.9
Revenue before currency translation effects	**11,207**	11,210	0.0
Operating profit	**563**	576	-2.3
Operating profit before currency translation effects	**593**	576	3.0
Profit	**362**	343	5.5
Profit before currency translation effects	**373**	343	8.7
Operating profit as a % of revenue	**5.1**	5.1	
Balance sheet			
Balance sheet total	**9,374**	8,421	11.3
Equity attributable to the shareholder and other providers of capital	**3,169**	2,832	11.9
Equity as a % of the balance sheet total	**33.8%**	33.6%	
Buffer capital as a % of the balance sheet total [1]	**14.0%**	13.2%	
Net debt [2]	**1,225**	1,108	10.6
Cash flows			
Net cash flows from operating activities	**850**	1,019	-16.6
Net cash flows used in investment activities	**-955**	-705	-35.5
Investments	**518**	564	-8.2
Value creation for member dairy farmers in euros per 100 kilos of milk (excluding VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)			
Guaranteed price	**28.38**	30.68	-7.5
Performance premium	**2.19**	2.25	-2.7
Meadow milk premium [3]	**0.29**	0.29	
Special supplements [4]	**0.15**	0.14	7.1
Cash price	**31.01**	33.36	-7.0
Issue of member bonds	**1.25**	1.28	-2.3
Milk price	**32.26**	34.64	-6.9
Additional payments [5]	**0.22**	n/a	
Interest member bonds	**0.41**	0.42	-2.4
Retained earnings	**2.12**	2.17	-2.3
Performance price	**35.01**	37.23	-6.0
Other information			
Employees (average number of FTEs)	**21,927**	22,049	-0.6
Number of accidents resulting in sick leave (per 200,000 hours worked)	**0.12**	0.24	
Number of member dairy farms at year-end	**13,300**	13,542	-1.8
Number of member dairy farmers at year-end	**18,906**	19,006	-0.5
Total milk processed (millions of kg)	**11,231**	11,066	1.5
Milk supplied by member dairy farmers (millions of kg)	**10,774**	10,060	7.1

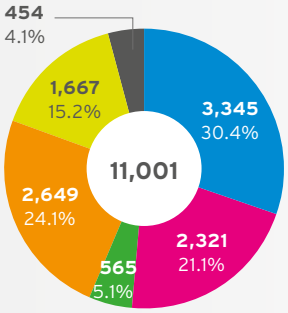
[1] Buffer capital is the equity attributable to the shareholder.
[2] The net debt concerns current and non-current interest-bearing borrowings, payables to Zuivelcoöperatie FrieslandCampina U.A. less cash and cash equivalents freely available.
[3] Dairy farmers applying pasturing receive a 1.00 euro meadow milk premium per 100 kilos of milk for 2016. An amount of 0.50 euros per 100 kilos of meadow milk is paid from the operating profit. On average on all FrieslandCampina member milk, this amounts to 0.29 euros per 100 kilos of milk. Furthermore, another 0.50 euros per 100 kg of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euros per 100 kilos of milk is withheld from all milk. This also pays for the partial meadow milk premium.
[4] Special supplements concern the total amount of pay-outs per 100 kilos of milk of Landliebe milk of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (47.71 euros including a settlement of 0.04 euro per 100 kilos of milk because of an underestimate over 2016) and the guaranteed price (28.38 euros) per 100 kilos of milk. On average on all FrieslandCampina member milk, this amounts to 0.15 euro per 100 kilos of milk.
[5] In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measure.

in millions of euros, unless stated otherwise

	2016	2015	Δ%
Consumer Products Europe, Middle East & Africa			
Revenue	3,345	3,681	-9.1
Revenue before currency translation effects	3,491	3,681	-5.2
Price effect on revenue	▼		
Volume development (percentage)	-0.4		
Volume-mix effect on revenue (percentage)	-1.0		
Employees (average number of FTEs)	7,313	7,604	-3.8
Consumer Products Asia			
Revenue	2,321	2,328	-0.3
Revenue before currency translation effects	2,355	2,328	1.2
Price effect on revenue	▼		
Volume development (percentage)	5.9		
Volume-mix effect on revenue (percentage)	2.7		
Employees (average number of FTEs)	6,190	6,324	-2.1
Consumer Products China			
Revenue	565	445	27.0
Revenue before currency translation effects	588	445	32.1
Price effect on revenue	▲		
Volume development (percentage)	37.0		
Volume-mix effect on revenue (percentage)	24.3		
Employees (average number of FTEs)	1,101	893	23.3
Cheese, Butter & Milkpowder			
Revenue	2,649	2,568	3.2
Price effect on revenue	▼		
Volume development (percentage)	7.7		
Volume-mix effect on revenue (percentage)	5.0		
Employees (average number of FTEs)	2,720	2,751	-1.1
Ingredients			
Revenue	1,667	1,721	-3.1
Price effect on revenue	▼		
Volume development (percentage)	5.4		
Volume-mix effect on revenue (percentage)	4.1		
Employees (average number of FTEs)	3,094	3,099	-0.2

Revenue by business group

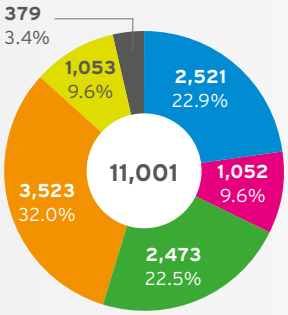
in millions of euros



- Consumer Products Europe, Middle East & Africa
- Consumer Products Asia
- Consumer Products China
- Cheese, Butter & Milkpowder
- Ingredients
- Other

Revenue by geographical region

in millions of euros



- Netherlands
- Germany
- Rest of Europe
- Asia and Oceania
- Africa and the Middle East
- North and South America

Key developments in 2016

Increasing volume, declining revenue

Further volume growth and improvement in result in Southeast Asia and China

Volumes in Europe rose slightly, but margins are under pressure

Volumes and result in Africa under severe pressure due to economic and political developments and negative currency effects

Recovery of revenue prices and result of basic products (cheese, butter and milk powder) in the second half of 2016

Revenue declined by 1.9 percent to 11.0 billion euros due to unfavourable currency effects. The lower sales prices, down by -2.7 percent, were compensated by a positive volume mix effect, which was up 2.8 percent

Rising profit

Operating profit declined by 2.3 percent to 563 million euros primarily due to currency effects; adjusted for currency effects, the operating profit is 593 million euros

Profit increased by 5.5 percent to 362 million euros; adjusted for currency effects, the profit is 373 million euros

Cash flow from operating activities decreased to 850 million euros (2015: 1,019 million euros) due to an increase in the working capital

Milk supply increased, milk price and value creation declined

Milk production by member dairy farmers increased by 7.1 percent to 10,774 million kilos of milk (2015: 10,060 million kilos)

Guaranteed price dropped 7.5 percent to 28.38 euros (2015: 30.68 euros)

Value creation declined by 2.5 percent to 3.44 euros (performance premium 2.19 euros and reservation of member bonds 1.25 euros) (2015: 3.53 euros) due to the greater increase of the milk volume in comparison to the profit (dilution effect). Given a milk volume equal to 2015: value creation is 3.69 euros per 100 kilos

Milk price for member dairy farmers dropped 6.9 percent to 32.26 euros (2015: 34.64 euros)

per 100 kilos of milk excluding VAT, at 3.47% protein, 4.41% fat and 4.51% lactose

Positive steps towards realisation of *route2020*

Growth of 2.8 percent in added-value products, primarily in infant nutrition, dairy-based beverages and cheese

'Expanding the leading positions in growth markets' is successful in Southeast Asia, China and in Ingredients, but is lagging in Africa.

'Protecting the volume in domestic markets': constant volume, however subject to pressure on margin, by means of successful activities involving cheese, Debic, Campina yoghurt and quark, Mona and Landliebe

'Developing future markets': 51-percent interest in Engro Foods in Pakistan and start-up of sale of food service products in China

Investments: 518 million euros (2015: 564 million euros) in capacity, replacement, quality, safety and sustainability

Roll-out of efficiency programmes at office sites and production facilities is proceeding according to plan

Bernutrisi

About Royal FrieslandCampina

route2020 strategy: sustainable growth and value creation

nourishing by nature

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

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

route2020
nourishing by nature

Purpose
nourishing by nature

Better nutrition

The global population is expected to grow from 7.4 billion people in 2015 to 8.5 billion people in 2030 and more than 9.7 billion people in 2050. This, together with the increase in wealth, will result in an increased demand for food. With its dairy products FrieslandCampina can contribute towards feeding the world's population. FrieslandCampina will focus on improving its products' recipes and on ensuring dairy products remain affordable and thus relevant for all income groups. This is in line with the United Nations' Sustainable Development Goal 'Zero Hunger - End hunger, achieve food security and improved nutrition and promote sustainable agriculture' (SDG 2).

A good living for our farmers

FrieslandCampina's goal is to add as much value as possible to the milk to be able to make the maximum contribution towards the incomes and continuity of many generations of dairy farmers. FrieslandCampina strives to pay out one of the highest milk prices in Northwest Europe. By doing so FrieslandCampina remains an attractive company for the member dairy farmers. In a number of countries in Asia, Africa and Eastern Europe FrieslandCampina offers local dairy farmers assistance with improving their farm management and milk quality. This is in line with the Sustainable Development Goal 'Decent Work and Economic Growth - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all' (SDG 8).

Aspiration

Now and for generations to come

FrieslandCampina focuses on future generations. This is why FrieslandCampina invests in sustainable long-term growth and in the financial health of the Company and the Cooperative. The aim is to achieve climate-neutral growth and reduce the use of scarce natural resources such as water, raw materials and fossil fuels. This is in line with the Sustainable Development Goals 'Responsible Consumption and Production - Ensure sustainable consumption and production patterns' (SDG 12) and 'Climate Action - Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy' (SDG 13).

FrieslandCampina's long-term aspirations are:

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

The Sustainable Development Goals of the United Nations

The United Nations have formulated Sustainable Development Goals (SDGs): 17 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. The FrieslandCampina *route2020* strategy and the *nourishing by nature* sustainability policy are in line with the Sustainable Development Goals of the United Nations. The Sustainable Developments Goals most relevant for FrieslandCampina have been indicated next to the description of the strategic principles.

Leverage the Dutch dairy heritage and unique milk chain in a sustainable way

Expand the leading positions in growth areas

Protect the volumes in home markets

Leverage the dairy heritage: from grass to glass

During its 140 years' history FrieslandCampina has built up strong market and brand positions based on recognisable brands and differentiating quality. The unique Dutch milk chain is a valuable tool for continuing to bind customers and consumers to FrieslandCampina's products and brands. Frisian Flag, Dutch Lady, Peak, Campina, Chocomel and Frico are examples of brands that have existed for generations. FrieslandCampina wants to increase worldwide consumer demand for Dutch dairy products, including through the *from grass to glass* concept and by investing even more in the appeal of Dutch dairy, in part by keeping cows visible in the Dutch landscape.

Generate the maximum value from milk

FrieslandCampina aims to generate more value from the milk supplied by focusing on combinations of main products and by-products that deliver the most value. This requires more effort over the coming years, aimed at improving the result from the least profitable billions of kilos of milk.

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

Build future markets

Highly engaged, capable people in effective collaboration

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

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

FrieslandCampina is active in many markets with a wide range of products. Every market situation is different and FrieslandCampina will focus on a limited number of specific product-market combinations. The selection of product-market combinations is based on the following key factors:

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

Based on the above criteria, three groups of product-market combinations have been selected on which FrieslandCampina will focus:

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

Highly engaged, capable people in effective collaboration

FrieslandCampina has highly engaged and capable employees. They are the foundation of FrieslandCampina's success. Worldwide there is a strong feeling of mutual involvement. Considerable attention is being paid to the continuous improvement of skills and ways of working. The primary aim of the strategy is to optimise sales processes for success in the market, the efficiency of processes and the way of working. A number of focal areas are important for the successful roll-out of the updated *route2020* strategy:

- improving the capabilities that are key for market success, including through innovation, commercial performance and further digitalisation;
- reducing costs to enable investments in growth, for example through supply chain and overhead efficiencies;
- AAA (Alignment, Accountability and Action): ensuring all employees think and act in accordance with the AAA concept, in which proactive coordination, clear responsibilities and fast and result-oriented action are key;
- continuously working on improving the quality of the products and the safety of the employees;
- ensuring good business conduct in line with the *Compass* code of conduct, based on the principles of integrity, respect and transparency.

Markets

Europe

6,046 revenue*
12,922 employees
66 locations

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

Asia and Oceania

3,523 revenue*
7,786 employees
36 locations

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

Africa and the Middle East

1,053 revenue*
1,050 employees
6 locations

Nigeria
Ghana
Ivory Coast
United Arab Emirates
Saudi Arabia
Egypt

North and South America

379 revenue*
169 employees
6 locations

United States
Brazil

* in millions of euros

Brands

Consumer

Food service

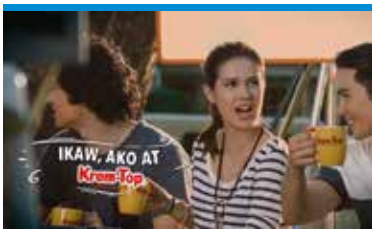
Ingredients

Top 10 consumer brands
in revenue in euros

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

Top 5 industrial products
in revenue in euros

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



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Report of the Executive Board

Developments and results

Higher profit on lower revenue in turbulent year

The profit of Royal FrieslandCampina N.V. in 2016 increased by 5.5 percent to 362 million euros (2015: 343 million euros). The operating profit declined by 2.3 percent to 563 million euros (2015: 576 million euros). Adjusted for negative currency effects of 30 million euros, the operating profit is 593 million euros. The margin stayed up to par due to the sale of more added-value products, especially in Asia, and lower procurement costs. The volume of milk supplied by member dairy farmers increased by 7.1 percent to 10.8 billion kilos. In spite of the growth in volume, revenue decreased by 1.9 percent to 11.0 billion euros (2015: 11.2 billion euros) due to negative currency effects. The cash flow from operating activities decreased to 850 million euros (2015: 1,019 million euros) due to the stocks having a higher value at the end of 2016.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	11,001	11,210	-1.9
Revenue before currency translation effects	11,207	11,210	0.0
Operating profit	563	576	-2.3
Operating profit before currency translation effects	593	576	3.0
Profit	362	343	5.5
Profit before currency translation effects	373	343	8.7
Operating profit as a % of revenue	5.1	5.1	
Net cash flow from operating activities	850	1,019	-16.6
Value creation per 100 kg milk	3.44	3.53	-2.5
Milk price in euros per 100 kg milk	32.26	34.64	-6.9
Milk supplied by member dairy farmers (millions of kg)	10,774	10,060	7.1

The milk price for member dairy farmers decreased by 6.9 percent to 32.26 euros per 100 kilos of milk (2015: 34.64 euros) due to the lower guaranteed price for raw milk. The value creation (performance premium and reservation in member bonds) increased by 15 million euros to 371 million euros. Per 100 kilos of milk, the value creation decreased by 2.5 percent to 3.44 euros (2015: 3.53 euros) due to the fact that milk volume increased more than profit (dilution effect).

Revenue declines

Revenue decreased by 1.9 percent to 11.0 billion euros, due to negative currency effects. The sales prices decreased by 2.7 percent. The sales (volumes) of added-value products, including infant nutrition and dairy-based beverages, increased by 2.8 percent. The volume of basic products grew by 2.7 percent due to the increase in the milk production of the member dairy farmers, which was primarily used for the production of more butter and milk powder.

The sale of Friso infant nutrition increased in all markets, particularly in China. The volume in the dairy-based beverages category also rose in Southeast Asia and the Middle East. In Africa the volume of dairy-based beverages decreased. The volume of added-value cheese increased; however, revenue declined due to lower sales prices. The volume of basic products rose due to the higher milk supply by member dairy farmers. In 2016, 1.5 billion kilos of raw milk were resold directly. Less milk was sold via the Dutch Milk Foundation, but more milk was sold on the spot market than in the previous financial year.

Minor decline in operating profit

The operating profit in 2016 decreased by 2.3 percent to 563 million euros (2015: 576 million euros). Currency effects had a negative effect of 30 million euros on the operating profit.

The gross profit declined by 3.7 percent to 1,926 million euros (2015: 2,000 million euros). Without currency effects, the gross profit was constant with respect to 2015. The sales volume increased with lower sales prices and lower costs, as a result of which margins stayed at 2015 levels. The cost of goods sold decreased by 1.5 percent to 9,075 million euros. This is mainly due to the lower guaranteed price for raw milk, cost-saving measures in all business groups and an improvement in purchasing conditions for other raw materials and packaging materials.

In 2016, the total payment to member dairy farmers increased by 0.9 percent to 3,544 million euros (2015: 3,514 million euros). The increase is due to the rise in the milk supply by 7.1 percent to 10,774 million kilos of milk. In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measure. This was charged to the operating profit.

There was an improvement in the operating profit of the business groups Consumer Products Asia, Consumer Products China and Cheese, Butter & Milkpowder. The operating profit declined in relation to 2015 for Consumer Products Europe, Middle East & Africa and to a lesser extent for Ingredients.

FrieslandCampina invested 540 million euros in advertising and promotions (2015: 536 million euros) to improve its market positions. The increase in the selling and general administrative costs is caused by acquisitions and by growth in Asia. In 2016, the other operating income includes a one-off benefit of 13.5 million euros due to the sale of the former Coberco site in Arnhem (Netherlands) to BPD Ontwikkeling, for 16.1 million euros. In 2015, the restructuring costs still amounted to 50 million euros.

Milk price methodology and profit appropriation 2014-2016

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

The amount of the retained earnings and the performance premium is proportionate to FrieslandCampina's profit. For the years 2014–2016, 45 percent of the profit, based on the guaranteed price and after deducting the interest paid on member bonds and member certificates and the profit attributable to non-controlling interests, is added to the Company's equity. 35 percent of the profit can be paid out to the member dairy farmers as a performance premium and 20 percent is paid out to the member dairy farmers in the form of fixed member bonds. The issue of fixed member bonds is based on the value of the milk supplied in the relevant financial year.

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

Adjustments to the milk price methodology and profit appropriation 2017–2019

Of Royal FrieslandCampina N.V.'s profit for the years 2017–2019, 55 percent of FrieslandCampina's profit, based on the guaranteed price and after deducting the interest on member bonds and the profit attributable to non-controlling interests, will be added to the Company's equity. 35 percent of the profit can be paid out to the member dairy farmers as a performance premium and 10 percent is paid out to the member dairy farmers in the form of member bonds. The issue of member bonds is based on the value of the milk supplied in the relevant financial year.

Higher profit

The profit over 2016 increased by 5.5 percent to 362 million euros (2015: 343 million euros). The increase in profit is due to the increased sale of added-value products, especially in Asia, the recovery of the sales prices of basic dairy products in the second half of the year, lower procurement costs and a lower tax expense.

The net financing expense decreased by 2 million euros to 41 million euros. The net interest charges amounted to 28 million euros (2015: 43 million euros).

The result from joint ventures and associates rose from 15 million euros to 20 million euros in 2016.

The tax expense was 180 million euros (2015: 205 million euros). The decrease is due to a lower effective tax expense of 33 percent (2015: 37 percent) because of a lower addition to the provisions compared to the previous year.

Profit appropriation

Of the 362 million euro profit in 2016, 80 million euros will be attributed to the non-controlling interests (2015: 73 million euros). The Executive Board proposes to add 229 million euros to the retained earnings (2015: 218 million euros). The remaining profit will be appropriated as follows: 44 million euros will be reserved for the interest compensation to holders of member bonds (2015: 42 million euros) and 9 million euros will be reserved for the interest compensation on the Cooperative's loan to the Company (2015: 10 million euros).

Value creation for member dairy farmers decreases slightly due to increase in milk volume

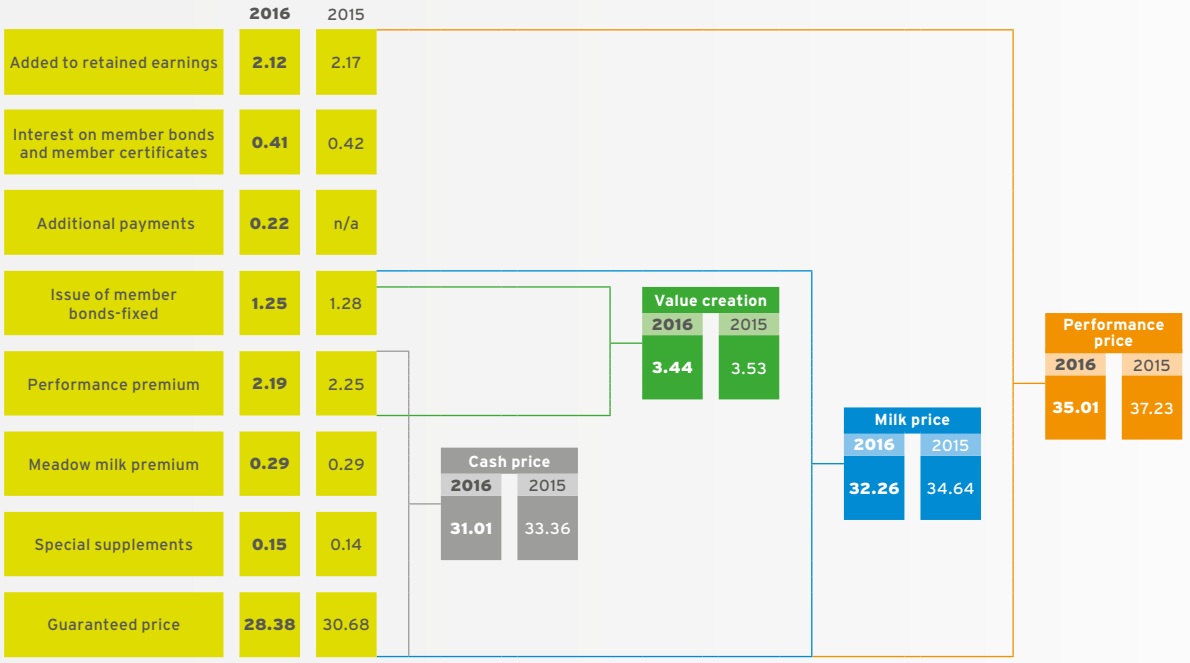
Over 2016, in addition to the guaranteed price, a total of 371 million euros will be paid out to member dairy farmers (2015: 355 million euros), the highest amount since the merger at year-end 2008. Of this, the performance premium is 236 million euros (2.19 euros per 100 kilos of milk, excluding VAT). The issue of member bonds over 2016 amounts to 135 million euros (1.25 euros per 100 kilos of milk, excluding VAT). In total, the performance premium and the issue of member bonds per 100 kilos of milk amount to 3.44 euros (2015: 3.53 euros), a decline of 2.5 percent.

The milk price for the member dairy farmers over 2016 amounts to 32.26 euros per 100 kilos of milk, excluding VAT. Compared to 2015 (34.64 euros), this represents a 6.9 percent decrease.

The guaranteed price over 2016 was 28.38 euros per 100 kilos of milk, which is a 7.5 percent decrease compared

Milk price and performance price

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



to 2015 (30.68 euros). The decrease in the guaranteed price is the result of lower milk prices of the reference companies. The compensation for special supplements (Landliebe, organic milk) amounts to 0.15 euros per 100 kilos of milk and the meadow milk premium amounts to 0.29 euros per 100 kilos of milk.

The performance premium amounts to 2.19 euros per 100 kilos of milk (2015: 2.25 euros). The decrease is due to the greater increase of the milk volume in comparison to the profit. The issue of member bonds over 2016 amounts to 1.25 euros per 100 kilos of milk (2015: 1.28 euros).

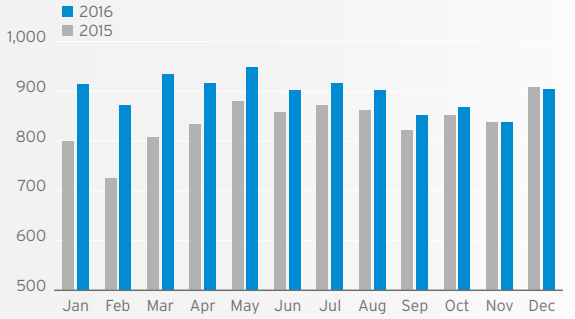
The performance price reflects the Company's overall performance. The FrieslandCampina performance price over 2016 amounts to 35.01 euros per 100 kilos of milk, excluding VAT (2015: 37.23 euros), a 6.0-percent decrease compared to 2015, mainly because of the lower guaranteed price. The performance price includes the additional pay-out of 0.22 euro per 100 kilos of milk in the context of the temporary 2-cent and 10-cent measure. The retained earnings in 2016 amount to 2.12 euros compared to 2.17 euros in 2015.

The organic milk price for 2016 amounts to 51.65 euros, excluding VAT, per 100 kilos of milk (2015: 51.80 euros). The organic milk guaranteed price is 47.71 euros per 100 kilos of milk (2015: 47.77 euros). The performance premium and the issue of member bonds are the same as for regular milk. The organic milk price is determined on the basis of the supply and demand for organic milk on the Western European market.

In September 2016, an interim pay-out amounting to 1.17 euros per 100 kilos of milk was paid to the member dairy farmers. This was 75 percent of the pro forma performance premium over the first half year (0.595 euros per 100 kilos of milk over the entire year). The final settlement will be effected in April 2017, based on FrieslandCampina's results for the financial year and the quantity of milk supplied by the dairy farmer in 2016. The performance premium over 2016 amounts to 2.19 euros. This means that member dairy farmers will still receive a performance premium of 1.595 euros per 100 kilos of milk in April 2017.

Milk production member dairy farmers

per month in millions of kg



Popularity of meadow cheese is growing

The number of dairy products made from meadow milk is increasing. Campina cheese was introduced in 2016: a series of Gouda cheeses made from meadow milk, ranging from light to extra mature, in slices and wedges. Milner and the North Holland Gouda cheese with the red label are made from meadow milk as well. A number of supermarket chains in the Netherlands have also started buying FrieslandCampina meadow cheese for their private labels.

In total, the interest on member bonds increased from 42 million euros to 44 million euros due to the increase in the number of bonds. The interest rate over the period 1 January to 31 May 2016 was 3.210 percent, the interest rate over the period 1 June to 30 November 2016 was 3.099 percent and the interest rate in the month of December was 3.031 percent (the interest rate on the 6-month Euribor was -0.219 percent for December 2016). The average interest payment per 100 kilos of member milk is 0.41 euros (2015: 0.42 euros).

Milk supply increased by 7.1 percent

In 2016, 10,774 million kilos of milk were supplied by the Cooperative's member dairy farmers. Due to the growth in the number of dairy cows, the high feed quality and the mild weather conditions, the milk supply was 7.1 percent above 2015 levels (10,060 million kilos). The growing supply of raw milk in association with lagging market demand in

the first five months of 2016 resulted in a further decline in the prices of especially basic products, such as foil cheese, butter and milk powder. Prices recovered slowly as of May due to the declining supply of milk in Europe.

Measures designed to slow down the growth of milk production

Following the abolition of the milk quota system in 2015, milk production on the farms of member dairy farmers increased faster than predicted. Furthermore, FrieslandCampina took the date on which the system of phosphate rights was expected to go into effect, i.e. 1 January 2017, into account in its capacity planning. This was expected to result in a reduction in milk production by member dairy farmers in order to meet the phosphate reduction requirements. FrieslandCampina consequently implemented various measures in 2016 to slow down the growth in milk production by member dairy farmers. FrieslandCampina asked member dairy farmers not to increase their milk supply between 28 December 2015 and 11 February 2016. The expectation was that the supply of milk by member dairy farmers in the first six weeks of 2016 would be so high that the processing capacity and direct sale opportunities would not be adequate. For a daily milk supply equal to or below the average daily milk supply in the reference period from 13 December to 27 December 2015, member dairy farmers received additional compensation for the milk supplied in the amount of 0.02 euros per kilo milk (excluding VAT). 60 percent of member dairy farmers participated in this temporary scheme. Over the first six weeks of 2016, an estimated 34 million kilos less milk was supplied. This scheme cost 14 million euros. From 1 February 2016, FrieslandCampina no longer accepted any milk from approximately half the Belgian suppliers. This concerns approximately 180 million kilos of milk on an annual basis. There was no direct market distribution option for this volume in Belgium. The relevant milk supply was transferred to other Belgian dairy companies.

During the six-month period between 1 October 2016 and 1 April 2017, FrieslandCampina will compensate member dairy farmers 0.10 euros per kilo of non-produced milk. With this measure FrieslandCampina aims to accelerate the reduction of phosphate production among member dairy farms. As such FrieslandCampina (at the time of the announcement on 17 September 2016) anticipated the effect of the announced system of phosphate rights to go into effect on 1 January 2017. With this measure FrieslandCampina aims to reduce the quantity of milk by a total of 150 million kilos over the period 1 October 2016 to 31 March 2017. FrieslandCampina has made an amount of 15 million euros available for this purpose. This amount is over and above the milk reduction premium of 0.14 euros per kilo milk that the European Union pays for non-produced milk to dairy farmers that have registered with RVO.nl prior to 21 September 2016. During the period up to 31 December 2016, 102 million fewer kilos of milk were supplied and 10 million euros were paid out to participating member dairy farmers.

Decrease in operating cash flow

The cash flow from operating activities decreased to 850 million euros (2015: 1,019 million euros) due to an increase in working capital. In 2016, the outbound cash flow for investments and acquisitions amounted to 955 million euros (2015: 705 million euros). In 2016, 518 million euros was invested in production capacity, and in efficiency and quality improvements. Disposals of operations and assets yielded 56 million euros.

In 2016, 436 million euros were invested in acquiring a 51-percent interest in Engro Foods in Pakistan.

Dutch dairy farmer promotes Friso in China

Dutch Dairy farmer Nils den Besten and his family visited China in November 2016 to promote Friso brand products. The large annual online shopping event in China took place on 11 November. Online shopping is important for Friso as well. In a live online broadcast, Nils spoke about the daily life of a FrieslandCampina dairy farmer. Furthermore, in his various interviews he shared his knowledge about the Dutch dairy farming sector and the way in which Friso products are produced. In China, Friso distinguishes itself on the basis of the *from grass to glass* concept, with the milk originating from own member dairy farmers. The event was a huge commercial success. There was a great deal of positive attention in the social media for Nils's special appearance as a Dutch dairy farmer.

The cash flow used in financing activities amounted to -227 million euros (2015: -228 million euros). This is the balance of the dividends paid out to non-controlling interests, interest for the member bonds, the use of the credit facility and a put-option obligation of 80 million euros to the International Finance Corporation and the Dutch development bank FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden).

The balance of cash and cash equivalents and bank current accounts decreased from 718 million euros (year-end 2015) to 354 million euros (year-end 2016), primarily due to higher investment activities.

Financial position

The net debt amounted to 1,225 million euros as at 31 December 2016. Compared to year-end 2015, this represents a 117 million euro increase.

The buffer capital (equity attributable to the shareholder) was strengthened by the addition of the retained earnings and amounts to 1,309 million euros. As a percentage of the balance sheet total, the buffer capital increased from 13.2 to 14.0 percent.

The equity attributable to the shareholder and other equity providers increased to 3,169 million euros (2015: 2,832 million euros) due to the addition of the retained earnings and the increase in the number of member bonds. Solvency, defined as the equity attributable to the shareholder and other equity providers as a percentage of the balance sheet total, remained virtually the same at 33.8 percent (2015: 33.6 percent).

As at 31 December 2016, the total equity, including non-controlling interests, amounted to 3,644 million euros (year-end 2015: 3,093 million euros). The total equity increased on balance due to the retained earnings in the general reserve, the increase in the number of member bonds and the recognition of the remaining interest in Engro Foods attributable to third parties.

Market trends

In 2016 milk production worldwide increased by 1.0 percent compared to 2015. During the same period, milk production in the European Union rose by 0.4 percent and by 7.5 percent in the Netherlands. In Oceania milk production decreased by 3.9 percent, in Latin America it decreased by 3.9 percent and in North America it rose by 2.6 percent.

In the first four months of 2016, the 2014 and 2015 market trend persisted and the revenue prices of basic products continued to decline. Milk production continued to increase in association with a limited growth in demand on the world market and a stagnating demand in Western Europe. The prices of skimmed milk powder fell to below the intervention level of 1,698 euros per tonne. The prices for butter, foil cheese and natural cheese also hit bottom in April 2016. In 2016, 422,000 tonnes of milk powder were temporarily taken off the market by intervention agencies and 143,000 tonnes of butter temporarily ended up in the Private Storage Scheme of the European Union.

The persistent low milk prices resulted in a reduction in milk production in the European Union as well as worldwide. Effective from June 2016, milk production stayed below 2015 levels. The trading stocks held by buyers were relatively limited because they were operating under the assumption that the price of dairy products was going to stay low for a prolonged period of time. The effect of both developments was that as of the summer of 2016, there was an increased demand for dairy products on the European and world markets, which caused the sales prices of most basic products to rise once again. This upwards price trend was supported by a stronger import demand in a number of countries in Southeast Asia.

Dutch Quotes (Cheese: Hannover Quote)
in euros per ton of product

	1 January 2016	1 April 2016	1 September 2016	31 December 2016	Δ% 31 December in relation to 1 January
Cheese (Hannover)	2,300	1,950	2,800	3,300	43.5
Whole milk powder	2,100	1,790	2,440	3,220	53.3
Skimmed milk powder	1,670	1,620	1,890	2,120	26.9
Whey powder	500	500	800	840	68.0
Butter	2,830	2,370	3,770	3,990	41.0

The net financing expense was 41 million euros and as such decreased by 2 million euros in relation to 2015. This decrease is primarily due to the results of the remeasurement of financial instruments.

Financing

FrieslandCampina makes use of loans from several financing groups (member dairy farmers, banks and investors). The main component of the bank loans consists of a 1.5 billion euro committed credit facility provided by a bank syndicate. In April 2016, the duration of this facility was extended to April 2021. The borrowings under this facility were 250 million euros as at the end of December 2016. The main component of the institutional loans outstanding amounts to 696 million US dollars. The liabilities in US dollars are converted into euro liabilities based on cross-currency swaps. In April 2016, 300 million euros in 'green' bonds (Green Schuldschein) were issued for the (re)financing of investments that contribute to more sustainable production in FrieslandCampina's production facilities and for the further development of healthy nutrition and the dairy sector in the countries in which FrieslandCampina operates. The European Investment Bank granted a credit facility of 150 million euros in June 2016 to finance FrieslandCampina R&D activities in Europe. The International Finance Corporation (IFC) and the Dutch development bank FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden) collectively provided 80 million euros in venture capital for the acquisition of a controlling interest in Engro Foods in Pakistan as at 19 December 2016. In addition, a credit facility of 100 million US dollars was obtained from IFC for the purpose of financing this acquisition.

Financial instruments risk management

FrieslandCampina is sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks and currency translation risks. The general risk policy is focused on identifying, analysing and, where necessary, mitigating financial risks as a means of preventing potential negative financial results. FrieslandCampina's key financial instruments consist of trade receivables, trade payables, borrowings from credit institutions and institutional investors, member bonds and cash and cash equivalents. The treasury policy relating to the risks associated with financial instruments is established on the basis of the risk management policy approved by the Executive Board. The recognition of the financial instruments and further details relating to the risk and risk management of financial instruments is explained in note 27 to the financial statements (page 117).

Pension liabilities and funding ratio

The largest part of the pension liabilities relate to the Dutch pension schemes and concerns the pension liabilities arising from the defined contribution schemes. As a result, the pension liabilities are in line with those of last year. As of 1 January 2015, for employees subject to the CLA for the Dairy Industry, new pension accruals are placed with the Bedrijfstakpensioenfonds voor de Zuivel en aanverwante industrie (Sectoral Pension Fund for the Dairy and Related Industries – a collective defined contribution scheme). As a consequence, accruals with the Stichting Pensioenfonds Campina and Avéro Achmea Pensioen have been halted. At year-end 2016, the policy or other funding ratio of the Bedrijfstakpensioenfonds voor de Zuivel en aanverwante industrie established on 1 January 2015 was 106.1 percent (year-end 2015: 110.3 percent). The (policy) funding ratio of the Pensioenfonds Campina declined from 104.8 percent at year-end 2015 to 101.9 percent at year-end 2016. The (policy) funding ratio of the segregated deposit transferred to Avéro Achmea Pensioen increased from 118.1 percent at year-end 2015 to 121.7 percent at year-end 2016. This funding ratio is determined on the basis of the insurance conditions agreed on with the insurer and is higher than it would be if it had been determined on the basis of current market value.

Realisation of route2020 strategy

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

Aspiration	Realisation
• To achieve around **5%** annual volume growth in the selected priority product-market combinations up to 2020	• In 2016, growth in volume of **2.8%** was realised in added-value products and **5.9%** in the chosen priority product-market combinations
• To efficiently process and valorise approximately **10** billion kilos of milk from the member dairy farmers	• **10.8** billion kilos of member milk were processed in 2016
• To grow to **15** billion euros in revenue by 2020	• In 2016, **11.0** billion euros in revenue was realised
• To be financially healthy and in harmony with nature and society in the short term and in **20** years' time in order to also create value for the following generations of dairy farmers	• The buffer capital was strengthened from 13.2% to **14.0%** • The realisation of sustainability objectives demands attention

FrieslandCampina opens demonstration kitchen in Shanghai

To better serve Chinese customers in the food service segment, FrieslandCampina opened a demonstration kitchen in Shanghai on 6 January 2017. The kitchen is subdivided into four sectors: beverages, baking, R&D and demonstrations. Together with employees from FrieslandCampina's Innovation Centre in Wageningen, technical experts and professional chefs work here on innovative dairy solutions for existing and potential customers. In addition, the kitchen offers support for food service activities relating to marketing strategies, taste tests and product development.

Expanding leading positions in growth markets

In six of the eight growth markets, FrieslandCampina has succeeded in realising growth in volume. The most successful markets are China (in part driven by the launch of Friso Prestige) and Indonesia (primarily with condensed milk). Performance in Malaysia and Vietnam is also improving. Developments in Nigeria continue to lag due to the deteriorating economy (low oil price) and the exceptionally weak Nigerian currency, the naira. Prices were under pressure in all markets.

Protecting volume in domestic markets

Volume growth was realised in four of the five domestic markets. In the Netherlands, with fresh daily dairy and especially Campina quark and yoghurt (for the first time since the merger at the end of 2008), Chocomel, Mona and with cheese made using meadow milk. A number of supermarket chains have migrated to FrieslandCampina meadow milk cheese for their private labels. The food service segment experienced positive developments in 2016. The Debic brand in particular realised a positive growth. In Germany, the volumes and market shares of dairy-based beverages were under pressure. On the other hand, Landliebe experienced growth. In addition, higher volumes of cheese were exported to Germany. The increase in sales to supermarket chains for private labels has contributed to processing the increasing quantity of milk. However, this was in part associated with negative margins.

Developing future markets

With the purchase of 51 percent of the shares of Engro Foods, the second largest dairy company in Pakistan, FrieslandCampina has reinforced its position in Central Asia. In China growth was realised by the sale of food service products and to a lesser degree by the sale of drinking milk. FrieslandCampina's position in Myanmar was improved by expanding distribution. Entry into new markets in North and West Africa was delayed due to the unrest and lagging economic developments in these regions. The new segment, nutrition for elderly, experienced positive development with growth in volumes and Optimel Pro Age's market share in Hong Kong.

Investments

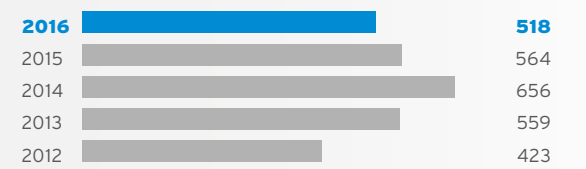
In 2016, FrieslandCampina invested 518 million euros (2015: 564 million euros). The purpose of the investments is to process the increasing quantity of milk produced by member dairy farmers and to valorise it in products that anticipate the wishes and needs of customers and consumers. Investments were also made in further improving product quality, safety and efficiency. Since 2009, a total of 3.6 billion euros has been invested in fixed assets, of which 2.6 billion euros (over 70 percent) in the Netherlands.

In 2016, a number of new production facilities went into operation:

- FrieslandCampina Ingredients in Borculo (Netherlands): second part of the new development for the production of milk powder and infant nutrition
- FrieslandCampina Cheese in Gerkesklooster (Netherlands): expansion of cheese warehouse and brine facility

Investments

in millions of euros



Key ongoing investment projects
FrieslandCampina Consumer Products Europe, Middle East & Africa
Leeuwarden (Netherlands)
Investment: 138 million euros
Duration: 2014–2017
Objective: complete second part of expansion of milk processing capacity by renewing and expanding production capacity for evaporated and condensed milk for export

FrieslandCampina Ingredients
Beilen (Netherlands)
Investment: 57 million euros
Duration: 2015–2017
Objective: expansion of small packaging capacity for infant nutrition

2017 investment projects
The 2017 budget estimates include approximately 500 million euros for investments. The key projects are as follows:
FrieslandCampina Cheese, Butter & Milkpowder
Gerkesklooster (Netherlands)
Investment: 25 million euros
Duration: 2016–2017
Objective: expansion of the cheese production and storage capacity in part to replace the cheese production facility in Rijkevoort (Netherlands)

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

Operationalisation of the second part of the facility for the production of milk powder and infant nutrition at FrieslandCampina Ingredients in Borculo (Netherlands).

Compass code of good business conduct
In 2016 FrieslandCampina introduced the renewed *Compass* code of good business conduct, as part of the update of the *route2020* strategy. *Compass* is based on the values of integrity, respect and transparency. The *Speak Up* procedure is available for employees who have concerns or doubts about certain situations or behaviours that are not in line with *Compass*. *Speak Up* explains when and how employees can let themselves be heard. This promotes an open culture within FrieslandCampina in which employees discuss dilemmas with each other.

Transformation into a flexible, efficient and decisive organisation
In the context of the realisation of the *route2020* strategy, FrieslandCampina is working on creating a flexible, efficient and decisive organisation in order to save costs as a means of freeing up resources for the purpose of achieving growth. Various programmes, such as World Class Operations Management (WCOM) Reloaded, Finance for the Future, Summit and HR Transformation contribute to this initiative. Process improvement, cost reduction and further professionalisation are key points for attention in this respect.

- Via WCOM Reloaded, work is underway on improvements together with employees in the various production facilities. The improvement proposals are resulting in new standardised ways of working, changes in tasks and responsibilities, more efficient staffing levels, different shift compositions and adjustments to the organisation structure. The lead time of this programme is approximately three years. In 2015, the programme was started up at the production facilities of FrieslandCampina in Leeuwarden and Beilen (both Netherlands). In 2016, the programme was started up at the production facilities in Lochem, Veghel, Noordwijk, Balkbrug (all Netherlands), Lummen (Belgium), Cologne (Germany), Lagos (Nigeria), Binh Duong and Ha Nam (both Vietnam). WCOM Reloaded will be implemented at additional FrieslandCampina sites over the coming years.
- The Finance for the Future programme focuses on the creation of a more efficient financial organisation with more clearly defined allocation of roles. In the operating companies, commercial activities are supported by supplying and analysing financial data. At a corporate level, specialists are working in areas relating to income tax, controlling, treasury, risk management and accounting & reporting. Activities relating to invoicing and bookkeeping will be relocated from an operating company or business group to a Financial Shared Services Centre in the region. In addition to the branch in Wolvega (Netherlands),

a new branch of the Financial Shared Services Centre was established in Kuala Lumpur (Malaysia) and in 2017 another branch will be established in Budapest (Hungary). The objective is to further standardise the administrative processes, reduce complexity, ensure constant quality and reduce costs.

- The Summit programme was started up in 2010 with the objective of standardising planning and information systems, processes and data for all FrieslandCampina operating companies. This programme is important in the realisation of a more integrated network organisation. The objective is to achieve more effective (logistics) planning and decision-making, as well as to work more efficiently by making better use of economies of scale. Overall, 60 percent of all employees ultimately involved are now working with the new platform. The objective is to complete the programme in 2019.
- As at 1 January 2016, FrieslandCampina's consumer activities in mainland China were transferred to a new business group: Consumer Products China. Setting up a new business group highlights the increasing importance of FrieslandCampina's activities in China. Up until 1 January 2016, these activities were part of the Consumer Products Asia business group.
- Effective 1 January 2016, the organisation of the Cheese, Butter & Milkpowder business group consists of four operating companies (Cheese & Butter Retail Europe; Cheese, Butter & Milkpowder B2B; Zijerveld and FrieslandCampina Export) and a separate supply chain organisation. The supporting business processes have been standardised and organised corporately at the level of the business group.
- The cheese packaging facility Den Hollander Food in Lochem (Netherlands) was shut down in the first quarter of 2016. The activities have been relocated to the cheese packaging facilities in Wolvega and Leerdam (both Netherlands). As a consequence, 139 jobs were eliminated.
- The production of organic dairy, including the Campina Boer en Land brand, is concentrated at the Maasdam site (Netherlands). The plant in Limmen (Netherlands) was shut down in mid-2016. The closure resulted in the elimination of 30 jobs. The ZuiverZuivel brand was acquired by a third party.
- In March 2016, FrieslandCampina Kievit sold the commercial vending activities (products for coffee and cocoa drinks vending machines) produced by the plant in Lippstadt (Germany) to Barry Callebaut Sweden AB. FrieslandCampina Kievit will continue producing these products for Barry Callebaut.
- Effective 5 January 2017, FrieslandCampina acquired A-ware's cheese warehouse in Workum (Netherlands). This warehouse is located adjacent to FrieslandCampina's cheese-making facility in Workum. The transfer of this warehouse enables FrieslandCampina itself to further process the cheese produced in Workum.
- The cheese production of FrieslandCampina Cheese in Rijkevoort (Netherlands) will be relocated to the production facilities in Bedum, Gerkesklooster and Workum (all Netherlands). As a result, 68 jobs will be eliminated at FrieslandCampina Cheese in Rijkevoort. The closure is planned for the third quarter of 2017.

Temporary FrieslandCampina 2017 standstill measure

FrieslandCampina took the date on which the system of phosphate rights was expected to go into effect, i.e. 1 January 2017, into account in its capacity planning. The system of phosphate rights was to be based on the 2 July 2015 milk volume as a baseline, as result of which the milk supply in comparison to the volumes supplied in 2016 was expected to decrease. Because the phosphate rights system would not be not taking effect on 1 January 2017 and due to the prolonged uncertainty about whether or not the original ZuiveINL Phosphate Reduction Plan would go ahead, there was no reducing effect on milk production in 2016. The Executive Board of Royal FrieslandCampina N.V, the Board of Zuivelcoöperatie FrieslandCampina U.A. and the Supervisory Board considered it, in the run-up to the ZuiveINL Phosphate Reduction Plan, undesirable to have the milk supply in 2017 exceed the available processing capacity. This is based on FrieslandCampina's own capacity, increased by the capacity contracted from third parties, and an estimate of reasonable sales opportunities on the spot market.

The Members' Council, following in-depth discussions, has consented to the temporary standstill measure in the Netherlands. The price paid to a member dairy farm that exceeds a previously set reference volume will be reduced. The deduction is 90 percent of the monthly guaranteed price on the quantity of milk supplied above the reference volume. When a dairy farm stays below the monthly reference volume, a mark-up will be paid on the quantity of milk supplied below the reference volume. The mark-ups will be financed from the deductions. To set the reference volumes, dairy farmers were given the option of choosing one of three reference periods: 1 January 2016 up to and including 31 March 2016, 20 August 2016 up to and including 17 September 2016, or 13 November 2016 up to and including 12 December 2016. The temporary standstill measure went into effect on 9 January 2017 and will continue to be in force until the ministerial Regulation for the phosphate reduction plan 2017 goes into effect on 1 March 2017.

Deferred implementation of national system of phosphate rights

On 13 October 2016, Dutch State Secretary Van Dam informed the House of Representatives and the dairy sector that the implementation of the system of phosphate rights, as part of the Fertilisers Act, would be deferred by one year. As a result of this, the system of phosphate rights is expected to go into effect on 1 January 2018 instead of 1 January 2017. The reason for the postponement was the European Commission's rejection of the phosphate rights system as proposed in the legislative proposal. The European Commission deemed the legislative proposal impermissible state aid because the objective of the phosphate rights system was to remedy violation of an existing EU standard, specifically the phosphate production ceiling in the derogation decision.

Phosphate reduction package of sector measures

Pursuant to the deferral of the system of phosphate rights, the dairy sector, together with other parties in the Netherlands, has assembled a set of measures designed to significantly reduce phosphate production by the dairy farming sector in 2017. A substantial and quick reduction of the phosphate production is required to meet the European Union's environmental requirements. Dutch farmers are permitted to discharge more nitrogen from animal manure on their land than dairy farmers in other EU member states (the so-called derogation). The condition attached to this derogation is that the phosphate production of the overall livestock farming sector in the Netherlands must stay below the phosphate production ceiling of 172.9 million kilos per year. Due to the growth of the dairy farming sector in particular, the phosphate ceiling was exceeded in 2015 and 2016, and threatens to be exceeded in 2017 as well. Retention of the derogation for the dairy farming sector and respecting the associated conditions are in the interest of the environment and the Dutch economy. The measures provide for an annual reduction of 8.2 million kilograms phosphate by the dairy farming sector. This should be sufficient to drop below the phosphate ceiling in 2017.

The package consists of the phosphate reduction on the basis of Feed Track Agreements, the Cessation of Farming Scheme and the ZuivelNL Phosphate Reduction Plan. Phosphate reduction on the basis of Feed Track Agreements is expected to result in a reduction of 1.7 million kilograms of phosphate; the Cessation of Farming Scheme and the ZuivelNL Phosphate Reduction Plan together are expected to produce a phosphate reduction of 6.5 million kilograms.

The ZuivelNL Phosphate Reduction Plan stimulates dairy farmers to reduce their livestock herd if they have more cows and young livestock on their farm than on 2 July 2015 minus 4 percent. Farms that did not have a phosphate surplus in 2015 in accordance with the definition in the Fertilisers Act and which are therefore land-based are exempted from the 4-percent reduction. Livestock farmers who fail to adjust their livestock herd or fail to make sufficient adjustments will pay a levy. Dairy farms that realise the desired reduction in their livestock herd in 2017 are exempted from the measures and receive a bonus. The sooner the reductions are achieved, the higher the bonus.

In the last months of 2016, there was a great deal of consultation in the dairy sector to develop plans and to obtain the consent of the various organisations involved and their members. The Members' Council of Zuivelcoöperatie FrieslandCampina U.A. in its meeting of 20 December 2016 consented to the ZuivelNL Phosphate Reduction Plan.

Ministerial regulation

On 30 December 2016, State Secretary Van Dam announced that the original ZuivelNL Phosphate Reduction Plan would be embedded in a ministerial regulation under the Agricultural Act. The phosphate reduction must be implemented by dairy farms and cooperatives. This ministerial Regulation for the phosphate reduction plan 2017 will take effect on 1 March 2017. In February 2017, the European Commission approved the total package of phosphate production measures 2017.

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Innovation

FrieslandCampina's nutritional scientists and experts know a great deal about milk and about the more than four hundred components that make up milk. Yet, almost every day new scientific insights are acquired and new discoveries are made and applied. Within FrieslandCampina innovation is driven and managed on the basis of the basic principles underlying *nourishing by nature*. Insights into the needs of consumers and industrial buyers, and insights into the area of nutrition, social trends and sustainability are key in this respect. The expertise of FrieslandCampina's experts lies in the area of nutritional science relating to nutrients, milk components and their applications, milk processing, production processes, products, packaging, dairy farming and sustainability.

FrieslandCampina with its innovations is focused on the realisation of sustainable growth and the health and wellbeing of consumers in the selected product-market combinations. In 2016, FrieslandCampina invested 74 million euros in research & development (2015: 73 million euros). This represents 0.7 percent of revenue.

FrieslandCampina is making efforts to acquire even better insight into the nutritional needs of babies, children, adults, active sports people and the elderly in different countries and cultures. It is important to use these insights to examine what role dairy products can play in the day-to-day diet of the local population. Knowledge about the effect of different proteins, minerals, vitamins, sugars and fats that play an important role in the growth, protection and promotion of health is essential in this respect.

Process technologists are focused on the development of new, and the optimisation of existing, production processes relating to product quality and product safety, cost effectiveness and sustainability. Spray drying milk to produce various milk powders requires a great deal of energy. Experts are working on various initiatives, including the realisation of sustainability objectives by means of heat recovery that could save substantial quantities of the energy used in the milk drying process.

In the purchase of foodstuffs, taste is almost always a decisive and distinctive factor. Understanding and the ability to properly measure the sensory properties of a product consequently is an important step in developing new products or improving existing products. Taste-determining factors are identified through means of taste tests and chemical-analytical flavour profiling. Fat, sugar and salt are important flavouring agents in foodstuffs, but sugar and fat are often also the cause of unneeded calorie intake. Reducing sugar, salt and fat, and minimising the use of additives, always affects the product's taste and 'mouth sensation'. Controlling the desired degree of sweetness is accomplished on the basis of knowledge of ingredients and fermentation. In the process of adjusting recipes, the interaction between taste and texture, which can be measured using rheometry, provides the insight needed to approach the sensory properties of the existing product as much as possible and even enhance them. For ingredients, the collaboration with the client and the opportunities for application by the client play an important role.

Packaging protects products against external influences during transport and storage. The process of developing packaging takes the direct needs of all steps in the logistics process into account, and most definitely those of the end-user, the consumer, as well. Areas for attention also include reducing any food residues left behind in packaging, reuse, minimising the use of materials, optimising logistics and reducing the emission of greenhouse gases.

Sustainability is a key motivating factor in many innovation projects. Reducing energy and water consumption in production processes and making more effective use of raw materials contribute to the realisation of sustainability objectives. Combined with knowledge of milk components and technology, this contributes to improving returns, while at the same time reducing the impact on the environment.

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At the request of ZuivelNL and the Duurzame Zuivelketen (Sustainable Dairy Chain), FrieslandCampina is developing a model that measures the emission of greenhouse gases of the milk produced on individual dairy farms. The model will use farm-specific data relating to areas such as farm size, feed composition, use of artificial fertilisers, herd characteristics and energy generation. The results will provide dairy farmers with better insight into how the emission of greenhouse gases associated with the production of milk can be reduced.

FrieslandCampina is in the process of creating a global recipe and specification system (Cyclops) designed to improve, accelerate and increase the efficiency of the innovation process from initial concept to market introduction. This involves a harmonised and structured way of working with clear tasks and responsibilities on the basis of a unique data system that contains all product information, such as raw material specifications, recipes, process conditions and final compositions.

Collaboration in the area of research through open innovation and particularly with start-ups is important to FrieslandCampina. This makes it possible to acquire expertise that is not available within the Company and this also makes it possible to anticipate developments. An example of this is the collaboration with the American company Glycosyn for the development of a new infant nutrition ingredient.

Innovation results in additional added value. The available budget for research & development in 2017 was increased by 10 percent in relation to 2016. In 2017, FrieslandCampina will continue to work on further innovation in various areas, such as sustainability, infant nutrition, sports nutrition, coffee and tea creamers, and the further reduction of sugar, salt and calories. In relation to cheese for industrial applications, work is underway on optimising specific functional properties, for example melting behaviour. FrieslandCampina collaborates with various institutions, such as Wageningen University, in the field of research into immunity among children and individual needs for nutrients, and on the further development of the dairy farming sector.

A few important innovations in 2016

Frisian Flag Sweetened Condensed Milk	sweetened condensed milk in a 560-gram squeezable pouch
Friso lactose-free	infant nutrition for babies with a lactose intolerance
Friso antireflux	infant nutrition for babies who suffer acid reflux
Landliebe	yoghurt drinks and milk drinks in new plastic bottles in Germany and Hungary
Yazoo Toffee Milk Drink	milk drink with no added sugar, artificial sweeteners, flavours or colourings

Quality

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

The Golden Quality Rules were introduced in 2016. All initiatives in the area of quality assurance and the *Foqus* requirements are or will be in line with the Golden Quality Rules. The Golden Quality Rules encourage all employees to even better meet the quality expectations of customers and consumers. The Golden Quality Rules are to ensure that product and process quality are safeguarded even more effectively and efficiently.

The Golden Quality Rules are:
- satisfied consumers and customers;
- qualified and committed people;
- robust processes;
- clean and efficiently organised work areas;
- implement changes and solve problems in a sustainable manner;
- reliable data;
- professional partners and suppliers.

In 2016, a number of initiatives were started up in the context of the Golden Quality Rules such as CIP (Cleaning in Place) validation, improvement of the quality management at suppliers and the further optimisation of procedures in support of process and product changes.

FrieslandCampina, together with the Cooperative's member dairy farmers, controls the entire production chain, from the farm up to and including the end-product, *from grass to glass*. The *Foqus* module for member dairy farmers (*Foqus planet*) gives priority to safeguarding quality and food safety. In addition, the continued stimulation of sustainability in the dairy farming sector through means of various programmes that allow dairy farmers to earn additional income is key.

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

Marketing Innovation Award for Lattiz
In 2016, FrieslandCampina received the Foodservice XS Marketing Innovation Award. Lattiz, an automatic milk foam machine for the hospitality sector, was judged the most attractive and successful marketing initiative in the food service segment. Lattiz makes it possible to serve a cappuccino with milk foam of a constant barista quality within several seconds. A strategic innovation in collaboration with business partners in the coffee industry.

European Union conditions related to the merger at the end of 2008

The independent Stichting Dutch Milk Foundation (DMF) implements the merger conditions that the European Commission imposed to the merger of Friesland Foods and Campina in 2008. Each year FrieslandCampina must make up to 1.2 billion kilos of Dutch raw milk available to producers of fresh dairy products and/or naturally matured cheese.

The division's business units that had to be sold at the time of the merger and that are now part of Arla Foods or Deltamilk are making use of this option. Of the 1.2 billion kilos of milk available, 0.9 billion were reserved by DMF for these market parties. The actual purchase may be less than the reservation. For delivery of the remaining 0.3 billion kilos of milk, a contract was concluded with A-ware.

DMF is also responsible for the implementation of the imposed severance scheme for Dutch FrieslandCampina member dairy farmers. During the period between 1 January and 31 December 2016, DMF approved eight (2015: five) applications by dairy farmers who wanted to terminate their membership in FrieslandCampina and exercise their right to the severance scheme of 5.00 euros per 100 kilos of milk. In total, this involved 7.7 million kilos of milk (2015: 5.0 million kilos of milk). The milk available to DMF is reduced by the volume of milk from Dutch member dairy farmers leaving FrieslandCampina while exercising their right to the severance scheme.

Member dairy farmers of FrieslandCampina in the Netherlands who want to leave for Deltamilk or Arla Foods can terminate their membership at any time and exercise their right to the severance scheme. The milk volumes they take along with them are subtracted from the volumes available for Deltamilk, Arla Foods or A-ware. For member dairy farmers who want to leave for other parties and who apply for the severance payment after 1 September, their application will not be immediately honoured. Departure subject to the allocation of the payment is then only possible after each full year. Dairy farmers who submitted their application after 31 August 2016 and up to and including 31 August 2017 can transfer as of 1 March 2018 or later. This is an annually repeating cycle.

From the effective date of the severance scheme in 2009, a total of 106 member dairy farmers made use of this option. This involves a total of 80.9 million kilos of milk.

Business groups

Consumer Products Europe, Middle East & Africa

- Volume growth in Europe, but pressure on volume in Africa
- Sales prices under pressure due to market developments, higher promotional pressure and negative currency effects in Africa
- Operating profit decreased due to pressure on margin in Europe, disappointing results in Germany and negative currency effects in Africa, in spite of restructuring and lower operating costs
- Market shares in Europe improved due to targeted advertising and promotion expenses

The revenue of the Consumer Products Europe, Middle East & Africa business group decreased by 9.1 percent to 3,345 million euros due to lower sales prices and negative currency effects of 146 million euros. The operating profit in comparison to 2015 consequently declined as well. In Europe there was an increase in dairy volumes. In Africa, volumes were under pressure due to challenging economic conditions. In 2016, further cost savings were realised. The number of employees decreased due to previously announced restructurings.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	3,345	3,681	-9.1
Revenue before currency translation effects	3,491	3,681	-5.2
Price effect on revenue	▼		
Volume development (percentage)	-0.4		
Volume-mix effect on revenue (percentage)	-1.0		
Employees (average number of FTEs)	7,313	7,604	-3.8

Western Europe

In Western Europe (Netherlands, Germany, Belgium, United Kingdom), the sales prices and margins of dairy products were under pressure in 2016 due to the elevated milk supply and challenging market conditions. In order to process the increased milk supply, the volumes at FrieslandCampina Foodservice and Retail Brands Europe significantly increased. The lower guaranteed price resulted in lower sales prices and lower operating profit for Retail Brands Europe and FrieslandCampina Germany. Where possible, price increases were implemented in the fourth quarter, but margins over all of 2016 continued to be under pressure.

For the first time in years, volume growth was realised in the Netherlands with our own dairy brands and the operating profit improved. The total dairy market share in the Netherlands grew due to products such as Campina, Mona, Optimel and Vifit with innovations such as Campina Vla (custard), Campina Kwark (quark), Mona Intense Vla (custard) and Optimel Greekstyle Yoghurt. FrieslandCampina Foodservice achieved strong volume growth in the professional segment (Debic) with the successful Lattiz (milk for cappuccino and latte in the hospitality sector), in the fast food segment and in the bakery segment. The revenue as well as the operating profit improved. FrieslandCampina Retail Brands Europe (sale of fresh and long-life dairy for private labels) realised significant volume growth among Dutch and German retailers. However, this was at the expense of the operating profit due to the extreme price pressure, particularly in Germany, and due to the inability to quickly implement price increases. In Germany, the revenue and operating profit significantly lagged due to general price pressures. Only Landliebe Drinks managed to improve its market share. The other brands experienced exceptional difficulties in the highly competitive German market. The market share of Cécémel in Belgium increased, while the market share of Yazoo in the United Kingdom declined somewhat.

A broad cheese range was launched in Hungary and Romania under the Frico brand.

Southeast Europe

The revenue and volumes improved both in Hungary and Romania based on previous restructuring efforts and targeted investments in the brands Pöttyös, Napolact and Landliebe. The last two brands also achieved market share growth. The operating profit improved in Romania and remained stable in Hungary. In Greece, volumes are under pressure and revenue decreased due to the difficult economic and market situation. However, the brands NoyNoy and Friso realised market share growth. Only products produced locally (Fruttis and Nezhny) and imported infant nutrition (Friso) can be sold in Russia. The revenue and the operating profit increased slightly. The process of integrating the infant nutrition distribution activities of the Anika Group, acquired in December 2015, progressed according to plan.

Africa and the Middle East

In Nigeria, the volume decreased. Due to the continued low oil price and political tensions, Nigeria's economic situation deteriorated further. This also caused the Nigerian currency, the naira, to be significantly devalued. As a result there was a decrease in revenue and in operating profit in euros. Peak and Three Crowns responded to the difficult conditions, for example by offering smaller and cheaper packaging. The gross impact of devaluation was limited due to an active currency policy and cost and margin improvements. Other African countries were also confronted with significant pressure on volume and operating profit. This is due mainly to the low oil price, import restrictions and significant currency effects in North Africa. The shortage of US dollars generally causes payment arrears. In the Middle East, the volume grew while the operating profit slightly declined due to strong price competition and a deterioration of the product mix. There was an increase in condensed milk sold under private label and B2B contracts. The Rainbow brand managed to achieve growth in market share in Saudi Arabia.

Restructurings

In April 2016, the 49-percent interest in Sahnemolkerei Hubert Wiesehoff GmbH in Germany was sold to Hubert Wiesehoff, which already held the remaining 51 percent of the shares. In the Netherlands, the production of organic dairy was relocated from Limmen to Maasdam and to an external producer. The ZuiverZuivel brand was sold to a third party. The Limmen site was closed. A new distribution centre was commissioned in Maasdam. The completion of this centre was delayed, as a result of which the distribution site in Woerden (Netherlands) stayed open longer than foreseen. A provision was created for restructuring the Heilbronn production facility (Germany). Restructurings dating from 2015 in Gütersloh (Germany) and Lagos (Nigeria) had a positive impact in 2016. The three-year efficiency programme started in 2015 in the Leeuwarden production facility (Netherlands) is on schedule. In 2016, this programme was also initiated in Lagos (Nigeria) and preparations were made in Cologne (Germany) and Lummen (Belgium). The programme focuses on cost reductions by improving the utilisation rate of the production lines and reducing material and energy consumption.

2017 areas for attention

In 2017, the emphasis in Europe is on finding the right balance between realising price increases, volume growth and market share improvement for the key brands. Margin improvements are pursued on the basis of additional cost measures. In Africa and the Middle East the emphasis is on realising volume growth and on financial risk management within this region. The improved use of the nutritional value of dairy continues to receive a great deal of attention, as does the reduction of sugar and salt in product development. The SAP implementation (Summit) in the Netherlands and Belgium/England is in the preparation phase and is scheduled to go live in the first and second quarter of 2017, respectively.

Consumer Products Asia

- Volume growth in all countries
- Revenue stable
- Market share growth in key countries
- Acquisition of controlling interest in Engro Foods in Pakistan

At 2.3 billion euros, the revenue of the Consumer Products Asia business group stayed virtually stable in 2016. The negative currency effect on revenue amounted to 34 million euros. Volume growth was realised in all markets in the dairy-based beverages category. Volumes in the infant nutrition segment also increased, in particular the Friso brand. The operating profit improved due to growth in volume, lower costs and efficiency improvements in spite of higher advertising and promotion spending. The greatest improvement in the result was realised in Indonesia, while Vietnam, the Philippines, Thailand and Malaysia also exhibited solid improvement. The result in Hong Kong was under pressure.

The economic conditions in most countries in Asia improved somewhat in relation to 2015, with the exception of Thailand, where the development of the economy is lagging. In almost all countries, improvements in efficiency contributed to improved results. The distribution and the product range for each point of sale in various countries were further optimised.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	2,321	2,328	-0.3
Revenue before currency translation effects	2,355	2,328	1.2
Price effect on revenue	▼		
Volume development (percentage)	5.9		
Volume-mix effect on revenue (percentage)	2.7		
Employees (average number of FTEs)	6,190	6,324	-2.1

Olper's is one of the leading brands operated by Engro Foods on the Pakistani dairy market.

Acquisition of controlling interest in Engro Foods in Pakistan

On 19 December 2016, FrieslandCampina, in partnership with the International Finance Corporation (IFC) of the World Bank and the Dutch development bank FMO (Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden), acquired a 51-percent controlling interest in Engro Foods, the second-largest dairy company in Pakistan. FrieslandCampina and Engro Foods expect to be able to profit from the shift in the Pakistan market from the use of unpackaged dairy products to packaged dairy products as a result of the growing middle income class, the increased need for high-quality milk and the increasing urbanisation.

Volume growth in all markets

The Company realised strong growth in Indonesia in terms of volume, revenue and operating profit. This was mainly based on an increase in the sale of dairy-based beverages and infant nutrition, in part due to improved distribution. The condensed milk in Frisian Flag cans pack with easy-open lids to a large extent contributed to the growth in sales. The squeezable packaging with screw tops introduced in 2016 is also very successful.

In Vietnam, after a few challenging years, the volume increased again, in part as a result of the successful introduction of Yomost yoghurt drinks. Friso infant nutrition also managed to improve its position, in part due to the use of social media and targeted digital marketing. Friso's market share increased in a declining infant nutrition market. Revenue remained stable, but the operating profit improved based on the rising sales figures of added-value products.

Alaska Milk Corporation in the Philippines improved its operating profit. The sales of dairy-based beverages increased, but the revenue decreased due to the lower sales prices and unfavourable currency effects.

FrieslandCampina Malaysia/Singapore and FrieslandCampina Thailand achieved a minor improvement in result. While the total volumes of Malaysia/Singapore increased, the infant nutrition volumes were under pressure. Consumer confidence is relatively low in Malaysia because of the economic situation in that country due to low oil and gas prices, combined with political uncertainties. In Thailand distribution improved and condensed milk was introduced, specifically for use in the food service segment. Volumes in Thailand were under pressure due to the social and economic situation.

FrieslandCampina is developing a position in Myanmar. During the past year, the Company invested in the expansion of the distribution network as a basis for future growth. The 2016 volume remained stable.

Result in Hong Kong under pressure

In Hong Kong the infant nutrition market was under pressure due to the declining tourism from China and the restrictions imposed by the Chinese government that hamper exports from Hong Kong to South China. As a result, the volume and margin of Friso infant nutrition decreased and FrieslandCampina Hong Kong's operating profit dropped significantly. Optimel Pro Age, the dairy beverage that responds to the specific nutritional needs of the 40+, 50+ and 60+ age groups, showed a positive development. The Black&White condensed milk brand managed to further improve its number one market position in Hong Kong as a result of successful marketing campaigns, such as Perfect Taste Perfect Moment.

Improving efficiency

The three-year efficiency programme started in 2016 in both production facilities in Vietnam is on schedule. The programme focuses on cost reductions by improving the utilisation rate of the production lines and reducing the material and energy consumption.

2017 areas for attention

In 2017, volume and market share growth in the various countries in Asia will continue to be a priority. Improving distribution and innovations will continue to be key in this respect. Further cost reductions, through means of efficiency improvements and further automation, are meant to free up resources so as to be able to further increase market investments. The integration of Engro Foods within FrieslandCampina will receive full attention.

Alaska Sweetened Condensed Creamer in sachets was introduced in the Philippines.

Consumer Products China

- Increased volume, revenue and result
- Distribution of Friso Prestige expanded
- Black&White successful in teashops
- Friesland Huishan Dairy introduces Dutch Lady infant nutrition

The revenue of the Consumer Products China business group increased by 27.0 percent to 565 million euros. The operating profit improved. Friso infant nutrition is FrieslandCampina's key product in China. In November 2016, the joint venture Friesland Huishan Dairy started selling infant nutrition under the Dutch Lady brand.

FrieslandCampina's consumer activities in China were transferred to the new business group FrieslandCampina China as per 1 January 2016. Previously, the activities were part of the business group Consumer Products Asia. Setting up a new business group highlights the increasing importance of FrieslandCampina's activities in China. Further growth in China will be based on expanding the product range, distribution and increasing e-commerce activities. The joint venture Friesland Huishan Dairy forms part of the business group as a separate operating company.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	565	445	27.0
Revenue before currency translation effects	588	445	32.1
Price effect on revenue	▲		
Volume development (percentage)	37.0		
Volume-mix effect on revenue (percentage)	24.3		
Employees (average number of FTEs)	1,101	893	23.3

The distribution of Friso Prestige in China was expanded: it is not only available online now, but also in special mother-baby shops and a number of supermarkets.

Successful introduction Friso Prestige

The Chinese market continues to grow. However, the economy is developing at a slower rate than in previous years. As a result, also the market for infant nutrition shows signs of economic slow-down after many years of growth. The top segment in infant nutrition is still growing, however. Friso Prestige was introduced in this segment at the end of 2015/beginning of 2016. Initially, Friso Prestige was only available online. Distribution was further expanded during 2016 and the product is now also available in special mother-baby shops and in a number of supermarkets in the forty largest Chinese cities. The introduction was supported by online advertising campaigns. Both Friso Prestige and Friso Gold gained market share with this introduction. Friso Gold currently is the third largest infant nutrition brand in China and the largest infant nutrition brand in terms of online sales.

In addition to infant nutrition, FrieslandCampina in China also sells Black&White evaporated milk and Black&White and Friesche Vlag long-life milk. Black&White is sold in the food service segment, mainly to teashops in the south of China and in Shanghai.

Friesland Huishan Dairy

In November 2016, Friesland Huishan Dairy introduced infant nutrition produced in China to the market under the brand Dutch Lady. The new product is available in two provinces. Distribution will gradually be expanded in 2017. The business unit also produces creamers for FrieslandCampina Kievit and infant nutrition and milk powder for its joint venture partner China Huishan Dairy. In 2016, the organisation was strengthened and employees were trained. Production meets the criteria of FrieslandCampina's quality system *Foqus*.

2017 areas for attention

A continuous area of attention in China is compliance with legislation and regulations, which are amended at a fast rate. To be able to sell infant nutrition in China after 1 January 2018, every producer of infant nutrition must register its recipes in China. Only after specific approval of the recipes by the Chinese government can products continue to be sold after 1 January 2018. In 2017, the new campaign for the improved Friso Gold version will be initiated. The introduction is supported with a new online campaign, with the Dutch origin of Friso and the dairy farmers being a key theme. The expansion of the distribution of Dutch Lady is key for Friesland Huishan Dairy.

In China, Friesland Huishan Dairy started the production and sale of Dutch Lady infant nutrition.

Cheese, Butter & Milkpowder

- The volume of processed milk and sales volume of basic products both increased by 6 percent
- Strong growth in butter specialties and added-value cheese
- Positive second half-year offsets large part of losses in first half-year
- Exports under pressure due to challenging market conditions in Africa and increasing competition on cheese in North, Central and South America
- Meadow cheese successfully introduced in the Netherlands and sold at higher prices

In 2016, the revenue of the Cheese, Butter & Milkpowder business group increased by 3.2 percent to 2,649 million euros. In the first half of 2016, sales prices were at a significantly lower level than in the first half of 2015. From June 2016, sales prices significantly recovered, particularly the foil cheese and butter prices. In 2016, cheese and butter activities achieved positive results due to an aggressive pricing policy and further cost controls. The operating profit of the business group improved in relation to 2015, but is still loss-making due to significant milk powder-related losses.

The milk supply to the business group rose by 5.7 percent for 2016 as a whole. The growth in milk volume is mainly processed into cheese, butter and milk powder.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	2,649	2,568	3.2
Price effect on revenue	▼		
Volume development (percentage)	7.7		
Volume-mix effect on revenue (percentage)	5.0		
Employees (average number of FTEs)	2,720	2,751	-1.1

2016: a year with two faces

The volume at FrieslandCampina Cheese, Butter & Milkpowder B2B rose significantly. After an exceptionally difficult first half-year, sales prices recovered gradually. In the first months of 2016, the valorisation of milk powder and butter was more profitable than cheese, due to the market-regulating effect of the EU's milk powder intervention. This made it possible to somewhat restrict stock levels of especially foil cheese in the second quarter. As demand increased in late May 2016, it once again became possible to increase the sales prices of foil cheese. Cheese prices once again rose due to the fact that less milk was produced in the second half of 2016, especially in Germany, Belgium and France. By the end of 2016, the price of foil cheese had reached double its April level. The revenue prices of butter also recovered on persistently high demand. Sales of mozzarella increased in 2016. The result was influenced positively due to the growth in the sale of special butter mixes to Asia and the production of meadow cheese for a third party.

FrieslandCampina Cheese & Butter Retail Europe sold more cheese in 2016. However, revenue declined due the on average lower revenue prices. The operating profit in comparison to 2015 declined as well. Especially in the first half of 2016, margins were highly negative due to the abundant supply on the market. In particular in Germany and Italy, sales prices for both natural cheese and foil cheese were at an extremely low level. The market somewhat recovered in the second half of the year. In Britain, new contracts were signed with a supermarket chain. In 2016, the sales of meadow cheese significantly increased. Various supermarket chains now also sell private label cheese made from meadow milk. The meadow cheese is sold at higher prices to offset the meadow milk premium paid to member dairy farmers by FrieslandCampina.

FrieslandCampina Export introduced its new Frico design at the Sial international food exhibition in Paris.

Zijerveld improved its volume, revenue and result in comparison to 2015. The customer product range was further expanded in Germany, Belgium and Spain. The Zijerveld cheese selling concept for supermarkets is being applied by increasingly more supermarkets. Zijerveld in this respect supplies a comprehensive range of cheese, including foreign and farmhouse cheeses.

Export under pressure

FrieslandCampina Export realised a positive result, but at a lower level than in 2015. The volume and the revenue also declined in comparison to 2015. The operating company was affected by the deteriorating economic situation in a number of countries in Africa due to low oil prices and political unrest. A growth in volume was realised in other countries. In spite of lower sales, the profitability of FrieslandCampina Export stayed at a positive level.

Efficiency programmes

The three-year efficiency programme started in 2016 in the Lochem, Balkbrug and Noordwijk production facilities (all Netherlands) is on schedule. The programme focuses on cost reductions by improving the utilisation rate of the production lines and reducing the material and energy consumption. The cheese packaging facility Den Hollander Food in Lochem was shut down in the first quarter of 2016. The activities have been relocated to the cheese packaging facilities in Wolvega and Leerdam (both Netherlands). The relocation of the production lines resulted in temporary delivery problems due to conversion delays. Efficiency at FrieslandCampina Butter in Den Bosch (Netherlands) increased due to the focus on skimming milk and packaging butter. The preparation of butter specialties for industrial buyers has been relocated to FrieslandCampina Butter in Noordwijk (Groningen/Netherlands).

2017 areas for attention

How milk production and the dairy market are going to develop in 2017 remains uncertain. Result improvements are being pursued on the basis of further cost reduction, but especially by means of further growth in added-value segments and more intensive cooperation with buyers.

Ingredients

- Volume growth due to increased demand for infant nutrition and dairy ingredients
- Share of revenue of added-value products rose
- Low prices for basic ingredients negatively affected operating profit
- New production facility in Borculo went into operation
- Focus on further improvement of efficiency, delivery reliability and quality

In 2016, the revenue of the Ingredients business group decreased by 3.1 percent due to lower sales prices. Volume increased, in part due to the commissioning of new production capacity in the Netherlands, China and the Philippines. The share in the revenue of products for infant nutrition and pharmaceutical applications has grown. The operating profit declined somewhat under the influence of lower dairy prices for basic ingredients.

Key figures in millions of euros, unless stated otherwise	2016	2015	Δ%
Revenue	1,667	1,721	-3.1
Price effect on revenue	▼		
Volume development (percentage)	5.4		
Volume-mix effect on revenue (percentage)	4.1		
Employees (average number of FTEs)	3,094	3,099	-0.2

DMV Excellion Calcium Caseinate S is a protein-rich sport nutrition ingredient for professional athletes which feeds the muscles longer, improving muscle performance.

FrieslandCampina Domo is performing well

The revenue of FrieslandCampina Domo increased and the operating profit improved in comparison to 2015. The production of Friso infant nutrition for other FrieslandCampina operating companies rose. The production of ingredients for infant nutrition for third parties lagged in the second half of the year due to lower growth among a number of buyers. In February 2016, FrieslandCampina Domo and the American company Glycosyn signed an agreement for the joint development of new ingredients for infant nutrition. Glycosyn has developed a patented technology for the production of lactose-based oligosaccharides. FrieslandCampina Domo will produce and market these new ingredients worldwide. In 2016, various products were launched including Domo Refit Micellar Casein Isolate for medical applications and an organic Domo Vivinal GOS (galacto-oligosaccharide).

FrieslandCampina DMV developing well, but margin development disappointing

FrieslandCampina DMV has seen a rise in the sale of caseinates and protein-rich specialties in areas such as sports nutrition. This was made possible by the increased demand and increased capacity in Veghel (Netherlands). With respect to the operating profit, DMV experienced a disappointing year. The high milk supply and the lower dairy prices resulted in a decrease in revenue due to lower sales prices and a lower margin. At the end of 2016, sales prices and margins somewhat recovered.

FrieslandCampina Kievit strong in Asia

The volume improved, but revenue declined due to lower sales prices. Globally, there is a growing demand for Kievit products for coffee specialties, such as cappuccinos and lattes. The demand for creamers for use in coffee and tea is increasing, especially in Asia and China. It is possible to meet this demand by making use of the additional production capacity of Alaska Milk Corporation in the Philippines and the creamer production facilities of Friesland Huishan Dairy in China. FrieslandCampina Kievit has a good market position in the Middle East and Egypt. The operating profit was under pressure due to the devaluation of the Egyptian pound and increasing competition.

Creamy Creation, part of FrieslandCampina Kievit since 2016, experienced a difficult year due to challenging market conditions and lack of currency and purchasing power in Africa, which is the main sales market for cream liqueurs after the United States.

Nutrifeed

Nutrifeed's revenue and operating profit (nutrition for young animals) decreased due to the lower sales prices caused by an increased market supply. This put margins under pressure and increased price-based competition. Volume increased, among others due to the partnership with Agrifirm and an increase in exports. The calf and piglet feed segment grew.

Domo Refit Micellar Casein Isolate, an ingredient with a high protein content and low viscosity, suitable for medical drinks, was launched at the 2016 Vitafoods exhibition.

DFE Pharma

The revenue of DFE Pharma (pharma lactose) remained at the same level as in 2015 due to an increase in volume at lower sales prices. The operating profit remained at the level of 2015. DFE Pharma in Veghel (Netherlands) invested in an expansion of the lactose capacity for inhalant applications. In addition, DFE Pharma is making preparations for an expansion in capacity in Nörten-Hardenberg (Germany).

Increase in capacity

In February 2016, the new production facility of FrieslandCampina Ingredients in Borculo (Netherlands) started producing milk concentrates and milk powder. This was necessary to process the increasing quantity of members' milk. In the second half of the year, preparations were made for the production of ingredients for infant nutrition. This means that the production processes must comply with higher standards. As a result, less milk powder will be produced in 2017 and the production of infant nutrition will commence over the course of 2017.

2017 areas for attention

Price increases due to rising dairy prices should contribute to the recovery of the operating profit in 2017. In production, the emphasis is on the further improvement of delivery reliability, quality, safety and efficiency. The three-year efficiency programme started in 2015 on the Beilen production facility (Netherlands) is on schedule. In March 2016, the programme was also started up in the Veghel production facility (Netherlands). The programme focuses on cost reductions by improving the output of the production lines and reducing material and energy consumption. Updating the working methods allowed for changing the employees' tasks and responsibilities and reducing the number of jobs at various levels in the organisation. On the market side, in 2017, Ingredients will continue to invest in the growth of added-value products and expanding customer-oriented marketing and sales.

Optime
drinkyoghurt

Corporate social responsibility

FrieslandCampina's purpose – *nourishing by nature*: better nutrition for the world's consumers, a good living for our farmers, now and for generations to come – provides direction for the daily activities and defines the values that FrieslandCampina considers important. This includes creating value in the market, as well as assuming social responsibility. The corporate social responsibility (CSR) and sustainability policy has been fully integrated into the *route2020* strategy. In 2016, the reporting of the CSR key figures was integrated into the financial planning and control cycle. FrieslandCampina uses the ISO 26000 – an internationally recognised guideline for the implementation of CSR within organisations – to safeguard the implementation of the CSR policy. In 2016, Lloyds audited the implementation in accordance with the ISO 26000 and found it to be compliant.

During the World Summit 2016 in Rotterdam, the International Dairy Federation (IDF) recognised the Sustainable Development Goals of the United Nations as the overarching framework that is to provide direction to the sustainable development of the dairy sector. FrieslandCampina is committed to the Sustainable Development Goals that closely match its own CSR policy, such as 'Good nutrition and sustainable food production', 'Economic growth and decent work', 'Responsible consumption and production', and 'Climate action'. To demonstrate the increasing sustainability of dairy products, FrieslandCampina is working with dairy producers and dairy buyers throughout the world to determine this on the basis of an international framework. This Dairy Sustainability Framework takes the regional differences relating to dairy production into account.

Better nutrition

Dairy forms a key part of the daily nutrition for many people throughout the entire world. With its high-quality milk and milk products, FrieslandCampina wants to contribute to food and nutrient security. In addition, FrieslandCampina wants to help constrain the growing number of overweight people, especially children. FrieslandCampina does this by imposing strict requirements on product composition, providing education and information about healthy nutrition and a healthy lifestyle, and by making it easier for the consumer to choose healthy nutrition. In 2016, the FrieslandCampina Nutrition Policy was developed that describes the criteria for better products, responsible marketing communications and education about a healthy pattern of nutrition and exercise.

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

Better nutrition	A good living for our farmers	Now and for generations to come	
Better products	Optimal milk valorisation	Climate-neutral growth	
Responsible marketing	Economic performance & profitability	Sustainable purchasing	Sustainable production
Transparent nutritional value labelling	Improved quality & quantity of milk in Dairy Development Programme	Animal health & welfare	
Healthy lifestyle education	Improved knowledge and skills in Dairy Development Programme	Meadow grazing	Biodiversity

Better products

FrieslandCampina throughout the world uses a set of scientific nutritional criteria for its consumer products, the FrieslandCampina Global Nutritional Standards. The criteria for trans fat, saturated fat, added sugar and salt are borrowed from the scientific nutritional criteria of Choices International (developed by independent scientists). FrieslandCampina has developed its own criteria for ensuring that dairy and other products contain valuable, naturally present nutrients, and for enriching products with essential nutrients. All of FrieslandCampina's consumer products are evaluated in terms of these criteria and it is determined whether the product contributes to the intake of important nutrients or whether it is a self-indulgent product. In 2016, it was decided to better monitor the balance between nutritional and self-indulgent products. In addition, the products whose sugar, salt and calorie content will be reduced over the coming years have been identified. New products will be developed such that they meet the nutritional criteria. With the implementation of the FrieslandCampina Nutrition Policy the nutritional value of the products has acquired a key position in the thinking and actions of the organisation. Lowering sugar, salt and/or fat content impacts the taste and the texture of products. To compensate for this, the recipes require adjustments that demand relatively high research and development time. In addition, consumers often have to get accustomed to changed products. This is why the recipes will be adjusted in small steps. This way the changes are gradually introduced to the consumer.

Responsible marketing communications

FrieslandCampina is committed to responsible marketing communications. This means, for example, that advertising aimed at children up to 12 years of age is only permitted for products that meet strict nutritional criteria, thus stimulating the choice for healthier nutrition. In addition, FrieslandCampina participates in codes of conduct in this area, such as the EU Pledge (voluntary agreements between European food companies about advertising aimed at children). In 2016, FrieslandCampina evaluated its responsible marketing communications policy and will further refine it in 2017.

Responsible labelling

FrieslandCampina uses a nutritional value-labelling standard designed to stimulate healthier choices by consumers. This means that, where the size of the packaging allows, the energy logo will be displayed on the front of all consumer packaging of FrieslandCampina brands. The nutritional value table contains information by 100 grams/ml, as well as by portion, together with information about the contribution of the nutrients in relation to the recommended daily intake. In the Netherlands, the Choices logo will gradually disappear from packaging due to changed regulations. The Dutch government is currently investigating alternatives.

Education about healthy nutritional and exercising patterns

In Southeast Asia, FrieslandCampina works together with the National Basketball Association (NBA) to create awareness of the importance of sufficient (outdoor) sports and exercise, good nutrition and a healthy lifestyle among children. The Drink.Move.BeStrong campaign reaches children at schools in Indonesia, Malaysia, Thailand and Vietnam. Parents and children also receive information about healthy nutrition and an active lifestyle via World Milk Day, school milk programmes, Goodness of Dairy campaigns, JOGG (Youth at a Healthy Weight) and the National School Breakfast programme.

A good living for our farmers

FrieslandCampina's aims to add as much value as possible to the milk so as to maximise its contribution to the incomes and continuity of member dairy farms. It is FrieslandCampina's responsibility to process the milk of the Zuivelcoöperatie FrieslandCampina's member dairy farmers and sell it at a price that also creates value in a sustainable way over the long term for member dairy farmers and society. This value creation becomes evident in various ways, for example by means of the performance premium that member dairy farmers receive on top of the guaranteed price for their milk.

FrieslandCampina has more than 140 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farmers in specific countries in Asia, Africa and Eastern Europe to further develop their farms, for example on the basis of the Dairy Development Programme. FrieslandCampina makes a contribution to the United Nations' Sustainable Development Goals by means of the Dairy Development Programme. By helping farmers become more productive and produce better quality milk, FrieslandCampina contributes to food security, more sustainable milk production and an improved economic position for dairy farmers in Dairy Development Programme countries. To achieve this, FrieslandCampina, in the Dairy Development Programme, focuses on sharing sector knowledge and expertise through means of training programmes and knowledge partnerships, and by supporting projects designed to improve the dairy farming sector's infrastructure. The Dairy Development Programme supports local dairy farmers, particularly in Indonesia, Thailand, Vietnam, Malaysia, China, Russia, Romania and Nigeria.

In 2016, in the context of the Dairy Development Programme, a total of 473 training sessions were organised in Vietnam, Indonesia, Malaysia, Thailand, China, Romania and Nigeria. In total, 18,752 farmers participated in the training sessions. Topics covered during the training sessions included animal health, raising young livestock, accommodation, milk quality and hygiene, bookkeeping, animal feed and water management, and milking techniques. In addition, nineteen employees, eight Dutch dairy farmers and two Supervisory Board members of FrieslandCampina shared their knowledge of marketing, HR management, strategy and the dairy farming sector, with more than twenty dairy cooperatives in Asia and Africa during more than 400 working days. Furthermore, FrieslandCampina organised 45 study trips to the Netherlands for 515 dairy experts from countries such as China, Vietnam, Indonesia, Thailand, Malaysia and Nigeria.

Now and for generations to come

The goal that FrieslandCampina has set for itself is to keep green house gas emissions in 2020 equal to or lower in comparison to 2010. This also applies in case of an increase in production. This goal includes the greenhouse gases released at the member dairy farms, during transport from the farm to production facilities and when the dairy is processed. In order to achieve climate-neutral growth, FrieslandCampina is working on several initiatives for an efficient and sustainable production chain. This means furthering sustainability in dairy farming, procuring sustainable (agricultural) raw materials and reducing energy consumption in the production of dairy products. Furthermore, FrieslandCampina, with the help of green certificates, stimulates member dairy farmers to generate sustainable energy, for example with wind turbines, solar panels or biomass. Animal welfare and biodiversity are also important to FrieslandCampina.

Farmer2Farmer programme started up in Nigeria

In late May 2016, the Nigerian Minister of Agriculture and Rural Development visited the Netherlands for an introduction to the dairy sector and FrieslandCampina. During his two-day visit, an agreement was reached about the start of the Farmer2Farmer programme in Nigeria as part of the FrieslandCampina Dairy Development Programme. The delegation visited the FrieslandCampina facility in Leeuwarden, the FrieslandCampina Innovation Centre in Wageningen and Wageningen University (Wageningen UR). The delegation also visited a farm of one of the member dairy farmers.

Climate-neutral growth
As part of the MJA-3 (Multi-Year Energy Efficiency Agreement) and the covenant 'Schone en Zuinige Agrosectoren' (Clean and Efficient Agricultural Sectors), the Dutch dairy sector has adopted the goal of achieving an improvement in energy consumption of 2 percent annually. FrieslandCampina conforms to this objective. By saving energy and producing renewable energy, the dairy farming sector can help reduce fossil fuel use and the emissions of greenhouse gases, such as carbon dioxide and methane.

In 2016, greenhouse gas emissions from production and transport decreased by 4.0 percent to 925 kt CO_2 equivalent. The key reason behind this improvement is the increase in the use of sustainable energy at the production facilities.

Sustainable production
By 2020, in all of its branches throughout the world, FrieslandCampina wants to be using 100 percent sustainable energy from renewable sources such as wind, solar and biomass, and have as much as possible of this energy generated by member dairy farms. The goal FrieslandCampina has set for itself is to keep the Company's water consumption by 2020 equal to or below 2010 levels. Objectives have been formulated for each site on the basis of regional water scarcity.

In 2016, the energy consumption increased by 3.4 percent to 2.75 GJ per tonne end product (2015: 2.66 GJ per tonne end product). Due to the increase in the milk supply and the growth in the production of infant nutrition and milk powder, more products were produced using more energy-intensive production methods. In addition, energy and water was consumed during the start-up of new plants, while relatively little was produced. The energy-reducing effects of new plants will become evident over the coming years. Specific savings to improve energy consumption by 2 percent per year are planned for the coming four years.

Mono manure fermentation and manure processing
In 2016, FrieslandCampina implemented two initiatives relating to manure fermentation and processing: Jumpstart for mono manure fermentation on the farm and 'Mestkring' (Manure Circle) for large-scale manure fermentation and manure processing. An independent cooperative was set up for Jumpstart. Manure fermentation contributes to reducing the emission of greenhouse gases, including methane. FrieslandCampina worked closely with other parties, such as Groen Gas Nederland, Duurzame Zuivelketen (DZK – Sustainable Dairy Chain), the Dutch Federation of Agricultural and Horticultural Organisations (LTO) and the Dutch Dairy Association (NZO). Jumpstart facilitates dairy farmers who want to join forces for the purpose of implementing mono manure fermentation on their own dairy farm. Mono manure fermentation produces heat and biogas and reduces greenhouse gases. The biogas can be upgraded to green gas and can be supplied to the natural gas network. It can also be used to fuel cogeneration plants that produce electricity and heat. FrieslandCampina guarantees that it will purchase the green energy generated by participating member dairy farmers. In addition, FrieslandCampina pays each participating member 10 euros per tonne of CO_2 reduction. In October 2016, the first prototype was put into use. The Dutch Ministry of Economic Affairs has allocated a maximum of 150 million euros in the context of the Renewable Energy Production Incentive Scheme (SDE+). The objective is to have a thousand mono fermenters for manure in operation in the coming years.

In 2016 the water consumption of the production facilities decreased by 2.4 percent to 4.48 m^3 per tonne end product (2015: 4.59 m^3 per tonne end product). The Aalter facility (Belgium) achieved a reduction of 25 percent in its water consumption by treating the waste water and in part reusing it for technical purposes. The San Pedro facility (Philippines) achieved a 35-percent reduction by optimising its processes. A significant water reduction was also achieved in Workum (Netherlands) by optimising the cheese production process. In the future, FrieslandCampina will primarily focus on reducing water consumption in areas where there is water scarcity or where there could be water scarcity in the near future. The focus in this respect will be on branches in Asia, the Middle East and Africa.

Sustainable procurement of raw materials

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

In 2016, the share of raw materials purchased from sustainably managed sources increased to 43 percent. This represents an increase of 17 percentage points compared to 2015. For example, in 2016 the share of cane sugar purchased with Bonsucro certificates increased by 15 percentage points. In addition, the suppliers of starch were evaluated in accordance with the SEDEX SMETA methodology. In this way, over 50 percent of the volume of starch purchased was acquired from a sustainably managed source in 2016.

In 2016, worldwide, 78 percent of all of the electricity consumed by FrieslandCampina's production facilities was made sustainable through the purchase of Guarantees of Origin for renewable electricity. These guarantee that the electricity is produced using wind, co-fermentation of biomass, manure fermentation or solar energy. This represents an increase of 13 percentage points compared to 2015. In 2016, FrieslandCampina's member dairy farmers, by means of the Guarantees of Origin for renewable energy, supplied 29 percent of the green electricity consumed by FrieslandCampina throughout the world.

In addition to pyrolysis oil, FrieslandCampina also uses biogas for creating steam in its production facility in Borculo (Netherlands). In the spring of 2017, FrieslandCampina will start acquiring biogas from an external party. This will result in CO_2 reduction.

In addition to the efforts in relation to the sustainable procurement of agricultural raw materials and paper packaging, FrieslandCampina is also aiming for sustainable procurement of other materials and services. FrieslandCampina is a co-founder of the BICEPS network for more sustainable ocean shipping.

Sustainability key figures

	2016	2015	Δ%
Climate-neutral growth			
Emission of greenhouse gases from production and transport (in kt CO_2 equivalent)	**925**	964	-4.0
Sustainable production			
Energy consumption (in GJ/tonne end product)	**2.75**	2.66	3.4
Water consumption (in m^3/tonne end product)	**4.48**	4.59	-2.4
Sustainable procurement of raw materials			
Share of sustainable agricultural raw materials (% of total)	**43**	26	
Green electricity (% of total)	**78**	65	
Pasture grazing			
Pasture grazing expressed as % of member dairy farms in the Netherlands that use a form of pasture grazing	**78.2**	77.9	

Percentage of pasture grazing increased slightly
Member dairy farmers are encouraged to allow their cows and young livestock to graze. In 2016, 78.2 percent of the member dairy farms in the Netherlands used pasture grazing or partial pasture grazing (2015: 77.9).

Pasture grazing
A grazing cow is part of the Dutch cultural landscape, something that is highly valued by its citizens. FrieslandCampina encourages member dairy farmers in the Netherlands, Belgium and Germany to allow their cows and young livestock to graze. When dairy cows are allowed to graze in the pasture for a minimum of 6 hours a day on at least 120 days per year, the dairy farmer is entitled to a meadow milk premium of gross 1.00 euro per 100 kilos of milk (effective 2017: 1.50 euros per 100 kilos of milk). Furthermore, FrieslandCampina rewards partial pasture grazing with 0.46 euros per 100 kilos of milk. To qualify for this, dairy farmers must allow a minimum of 25 percent of the cattle present on their dairy farm to graze in the pasture for a minimum of 6 hours a day on at least 120 days per year.

In 2016, the percentage of member dairy farms in the Netherlands whose cows graze in a pasture increased to 78.2 percent (2015: 77.9 percent). This is the second year in a row that the percentage of dairy farms that practices pasture grazing or partial pasture grazing has increased. Additional information about FrieslandCampina's CSR policy, including the results over 2016, will be available in the FrieslandCampina CSR update to be published in May 2017.

FrieslandCampina and its employees

In 2016 the average number of employees (FTEs) declined by 0.6 percent to 21,927 (2015: 22,049). The average number of employees in the Consumer Products China business group and in Corporate & Support increased. In the other business groups, the average number of employees declined.

Talent management

Due to the improving job market and the global scarcity of talent, the focused recruitment, development and retention of talent is crucial for FrieslandCampina to continue to be successful. In 2016, the number of management positions to which internal candidates were appointed declined to 70 percent. In 2015, this was 85 percent. The objective is around 75 percent. In 2016, FrieslandCampina refined its Employer Value Proposition and its talent recruiting processes. Turnover among top talent is below 5 percent. In 2016, leadership programmes were implemented throughout the world under the header Nourishing Leadership to assist managers in enabling their employees to maximise their development.

FrieslandCampina aims to increase the percentage of women in senior management positions. In 2016, this increased to 23.5 percent (2015: 20.6 percent). As such, growth is in line with the objective of having at least 30 percent women in senior management positions by 2020.

In 2016, in the context of the global HR Transformation Programme, the *HoRizon* personnel and organisation system was implemented in sixteen countries. *HoRizon* supports the standard way of working and offers the almost 22,000 employees the possibility of viewing their own information and submitting changes digitally themselves. In addition, *HoRizon* is used for Performance Management, Talent Management and Learning & Development. The implementation of global processes and systems has resulted in cost savings and a decrease in the number of employees in the HR discipline.

To ensure that critical expertise and knowledge remain available within FrieslandCampina for the implementation of its strategy, work was begun in 2016 on developing a number of expert career initiatives and designing and implementing instruments specifically for this essential group of employees. The project was started in the R&D discipline and will be rolled out to other disciplines.

Social agenda

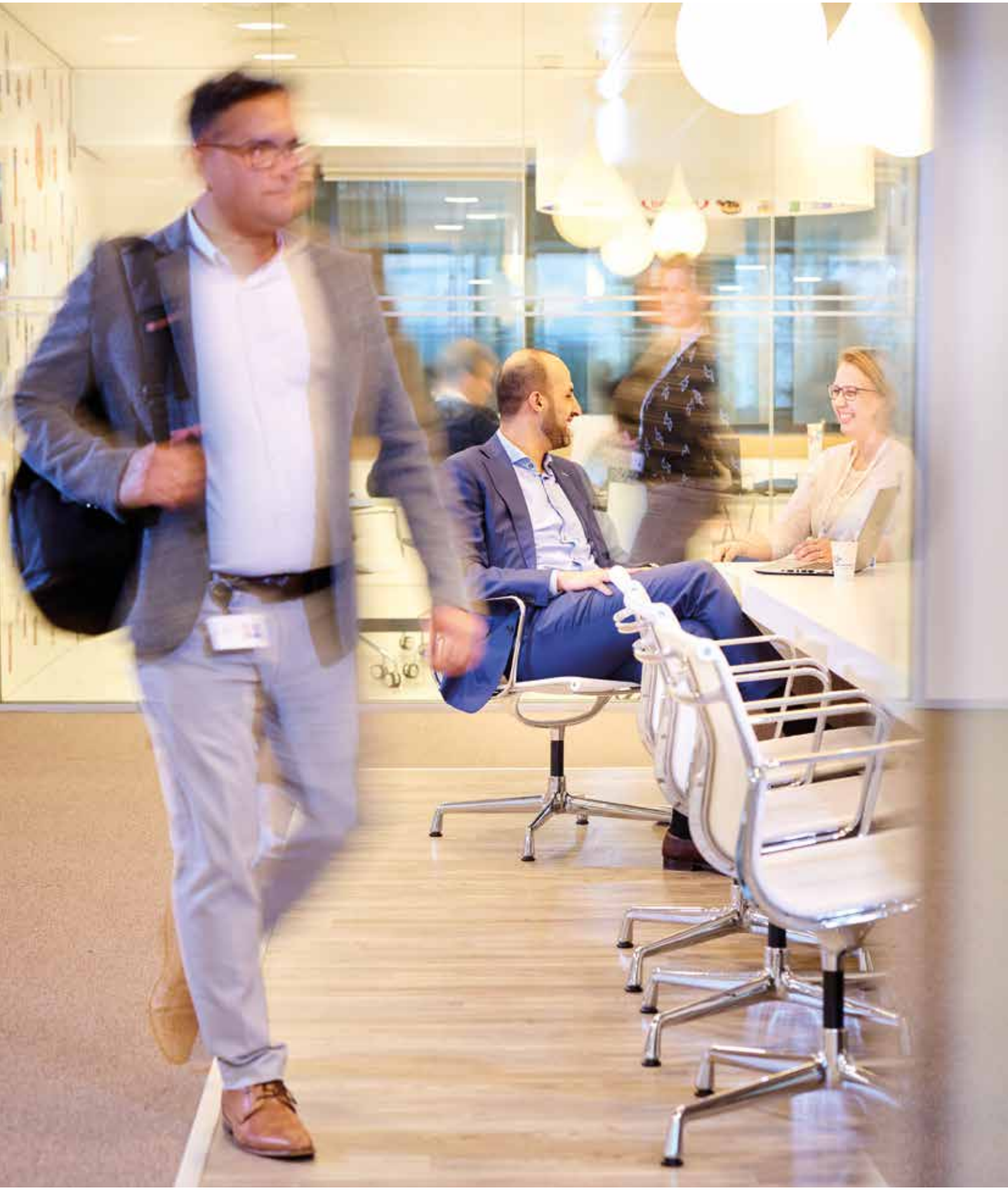
A social agenda was developed together with the Central Works Council. This social agenda sets out the direction for developing FrieslandCampina's social policy, its terms and conditions of employment and labour relations. The social agenda, the AAA values (Alignment, Accountability and Action), corporate social responsibility, safety and cost control were key themes in the development of a new integrated mobility scheme.

Compass

In 2016, the renewed code of good business conduct, *Compass*, was introduced. Each quarter, members of the management gave a presentation about *Compass*. During these presentations, dilemmas were discussed that employees could encounter in the context of good business conduct. The renewed *Speak Up* procedure was also introduced in the third quarter. The *Speak Up* procedure explains when and how employees can let themselves be heard. Local confidential counsellors were appointed throughout the world and a *Speak Up* telephone and web service are available allowing employees to ask questions or express concerns in their own language about matters that may not be in line with *Compass*. In addition to the presentations and the discussions of dilemmas, employees familiarised themselves with *Compass* and *Speak Up* in mandatory e-learning sessions. A number of countries have started to provide interactive workshops with an emphasis on honest business practices, during which local examples and dilemmas are discussed.

Number of employees average number of FTEs

	2016	2015	Δ%
Consumer Products Europe, Middle East & Africa	**7,313**	7,604	-3.8
Consumer Products Asia	**6,190**	6,324	-2.1
Consumer Products China	**1,101**	893	23.3
Cheese, Butter & Milkpowder	**2,720**	2,751	-1.1
Ingredients	**3,094**	3,099	-0.2
Corporate & Support	**1,509**	1,378	9.5
FrieslandCampina	**21,927**	22,049	-0.6



Safety

FrieslandCampina is making efforts to create the safest possible workplace for its employees and suppliers. The objective is zero accidents and incidents, so that everyone working for FrieslandCampina arrives home safe and sound. The Global Safety Programme describes the safety standards used and how processes are to be run. The programme provides education and training in the area of safety leadership and safe behaviour. Furthermore, a great deal of attention is devoted to communication. Accidents and incidents are reported, investigated and the lessons learned are shared in various ways with other sites, for example through means of videos, in order to enhance awareness and to prevent reoccurrence. In 2016, a great deal of attention was also devoted to celebrating successes. The FrieslandCampina 1,000 Days Safety Award was presented six times. In addition, 23 sites were accident-free for one year, fourteen sites were accident-free for two years and three sites were accident-free for five years. There is an active focus on continuously improving safety in all production facilities and in all offices.

In 2016 six locations received the FrieslandCampina 1,000 Days Safety Award: FrieslandCampina Kievit in Meppel (Netherlands), FrieslandCampina Cheese in Born, Lutjewinkel and Balkburg (all Netherlands), FrieslandCampina Malaysia in Kuala Lumpur, FrieslandCampina Hellas in Patras (Greece).

In 2016, the number of accidents resulting in sick leave at FrieslandCampina sites decreased from 71 to 36. This represents a 50-percent decrease compared to 2015. The number of accidents has never been this low before. In 2016, the ratio of the number of accidents resulting in sick leave per 200,000 hours worked decreased to 0.12 (2015: 0.24), a 50-percent decrease compared to 2015. November 2016 was the first month ever with zero accidents resulting in sick leave throughout all of FrieslandCampina.

In 2016, reporting accidents resulting in the assignment of alternative work or requiring medical treatment was initiated. This makes it possible to better compare safety performance with other companies. The ratio of the number of accidents resulting in sick leave, medical treatment and alternative work per 200,000 hours worked is 0.78. Effective from 2017, this ratio will be the leading indicator.

In 2016, the main causes of accidents were related to:
1. machines (interventions in rotating parts, exposure to steam, hot liquids, pressure, electricity, etc.)
2. falling, tripping, slipping (falling from stairs, slippery floors)
3. internal transport (forklift truck and pallet truck collisions)

The further decrease in the number of accidents is a good step on the road towards the objective of having zero accidents by 2020. The Global Safety Programme, which includes leadership training, employee training, the implementation of the seven *Life Saving Rules* and the focus on preventing reoccurring incidents, has made an important contribution to this. The *Foqus SHE* (Safety, Health, Environment) audit programme is becoming increasingly important. Aside from learning from incidents, it offers the possibility of monitoring and further improving the FrieslandCampina branches.

The target for 2017 is to have fewer than 0.10 accidents resulting in sick leave per 200,000 hours worked. Machine safety, process safety (safe plants, safely working with chemicals, etc) and the safety of temporary workers are some of the spearheads in the area of safety for 2017.

Risk management

Achieving FrieslandCampina's business objectives entails risks and uncertainties arising from external factors such as the economic situation, market developments, disasters and internal factors, such as operational safety and quality risks.

FrieslandCampina uses a risk management framework based on internationally-accepted COSO standards and the Dutch Corporate Governance Code. This framework is applicable to the company and its consolidated subsidiaries. It sets out the risk appetite, structures, responsibilities, processes and governance. A summary of this framework is included in the Overviews chapter of this Annual Report. FrieslandCampina implemented several improvements to the framework during 2016.

Risk culture

FrieslandCampina encourages staff to be aware of the risks associated with their roles and responsibilities. Management and employees are expected to understand the risks and take ownership in managing risks in performing their professional activities. FrieslandCampina seeks to improve its risk culture and awareness continuously.

Key risks

FrieslandCampina operates in many different countries and product market combinations. The Company thus faces inherent risks like volatility in currency and market pricing developments, as well as country-specific economic and geopolitical risks. These risks are mitigated for the Company as a whole, due to the diversification of its activities. Nevertheless, FrieslandCampina has programmes in place to manage these inherent risks, such as the forecasting and commercial planning processes to anticipate pricing and economic developments. The Company applies currency-hedging policies and central controls over financial risks. Management teams in the key countries are responsible for monitoring and managing country-specific risks, supported by governmental and regulatory affairs officers.

The main and specific risks FrieslandCampina faces that could impact the realisation of its strategic objectives, and the associated actions to mitigate these, are summarised below. FrieslandCampina could be impacted adversely by other risks of which it was not aware at the date of this report.

Milk supply

The supply of milk by FrieslandCampina's member farmers has grown substantially since the abolition of the EU milk-quota regime in April 2015. As a result, the prices of basic dairy products especially came under significant pressure as supply outgrew demand, resulting in low milk prices for member farmers. FrieslandCampina prepared for the increasing milk supply by investing significantly in additional milk processing capacity while continuing to focus on increasing the sale of value added products, either autonomously or through acquisitions. FrieslandCampina uses enhanced forecasting techniques to develop mid-range to long-range milk supply estimates.

Reputation

Reputational damage tends to be a consequence of risks that materialise in areas such as food safety issues or quality defects, safety incidents and breaches of company ethics and integrity. The potential impact of such incidents is on the rise due to the growing importance of public opinion, media and publicity, and because of social media and information transparency. Given the growing international nature of the product portfolio, a (perceived) quality issue with raw milk could result in a significant loss of reputation and market share in key international markets.

FrieslandCampina follows a pro-active policy for sustaining strong relationships with various stakeholder groups, building trust in the dairy sector in general and in the Company in particular. The media are monitored closely for any items relating to FrieslandCampina's reputation and the best possible use is made of (new) communication tools. It goes without saying that the Company strives to limit the impact of these underlying risks through preventive measures such as its quality programmes (see below) and strengthening its stakeholder relationships. Repressive measures, such as our crisis management procedures, deal with managing the impact of incidents and with being well-prepared.

Operational disruption due to disasters
Nature or man-made disasters (e.g. fire, flooding, earthquakes, volcanic eruptions, pandemics) as well as an outbreak of animal diseases, can impact production continuity and consumer demand over a sustained period of time. The risk of disasters such as flooding or fire at FrieslandCampina's key (production) facilities, at those of key suppliers, or other major breakdowns of infrastructure or equipment, is always present despite the Company's continuous efforts to eliminate such risks. The Company has programmes in place to reduce the likelihood of these risks through preventive security and safety measures, independent inspections and improvement programmes at the Company's facilities, outsourced services (e.g. logistics and ICT) and suppliers. Nevertheless, a disaster could still occur and could cause significant disruption throughout the entire chain, should contingency measures in terms of backup capacity and business continuity plans prove insufficient. Regular assessments take place to ensure the availability of adequate backup capacity and contingency measures.

Product quality and food safety
Issues in production processes which cause quality defects can impact reputation adversely. In view of the nature of the products (food and ingredients for the food, pharmaceutical and feed industry) it is essential for FrieslandCampina to continuously enforce the highest standards of food quality and food safety.

Clients and governments are imposing increasingly stringent quality demands on food manufacturers. A quality incident, or even a change in the quality perception of consumers or governments, could have serious consequences for the Company's reputation and market position. The aim of FrieslandCampina's quality assurance programmes (including *Foqus* in its own production facilities, at members' dairy farms and at suppliers' premises, including audits) is to safeguard the safety and quality of products throughout the supply chain. These programmes are assessed and improved throughout the entire organisation every year. Investments are made to improve the quality of production processes and infrastructure continuously.

The Golden Quality Rules were rolled out globally in October 2016, to further strengthen quality awareness and consistency throughout the organisation. The execution of supplier quality management programmes is being given increased attention in this context.

Regulatory
The dairy industry is facing an ever increasing level of laws and regulations across the globe, in terms of food safety, pricing, product registration and health (e.g. sugar tax). Regulations on infant formulae are becoming far stricter. In this respect, the WHO code, restricting the promotion of infant formulae as a replacement for breast feeding, and stricter registration requirements for infant formula recipes in China, typify some of the developments in 2016.

FrieslandCampina endeavours to comply with all applicable laws and regulations, and continuously improves programmes in areas such as food safety and quality, sustainability, the *Compass* code of conduct and its Dairy Development Programme. The Company has strengthened its governmental and regulatory affairs functions in the key countries of operation in recent years.

Sustainability
FrieslandCampina is conscious of the importance of the sustainable development of the entire dairy sector. The CSR policy *nourishing by nature* provides guidance to the daily activities and substantiates the values which FrieslandCampina considers important. More information on developments in this area can be found in the chapter on corporate social responsibility (page 48).

Outlook

Global milk production is expected to rise somewhat in 2017. A marginal increase in milk production is expected within the European Union. In the Netherlands, milk production is expected to decrease due to the introduction of the phosphate reduction measures. The demand for dairy products in Europe is expected to remain stable or stay on a slightly declining trend. In Africa, the Middle East and South America, a further decline in demand is foreseen. In Asia, particularly in China, a slight increase in the demand for dairy products is expected. As a consequence of the above-mentioned trends, it is expected that the prices for basic dairy products will continue to fluctuate around the year-end 2016/beginning of 2017 level.

Revenue is expected to increase due to the acquisition of the controlling interest in Engro Foods, the higher price levels of dairy products in 2017 in comparison to the price levels in the first half of 2016 and further volume growth in added-value products. Due consideration is provided to an increase in the purchase prices of most raw materials.

There are uncertainties due to the persistent stagnation of the economies in oil-exporting countries in the Middle East and Africa, geopolitical tensions in some regions and negative currency trends. In Europe there will be elections in Germany, France and the Netherlands, as well as elsewhere. Furthermore, negotiations between the EU and the United Kingdom concerning Brexit will commence.

In 2017, investments amounting to approximately 500 million euros are foreseen in quality improvements and the expansion of capacity. In 2017, investments in Research & Development will increase by approximately 10 percent in order to be able to further improve the competitive position over time. Focused spending on advertising and promotion, of which increasingly more is spent on digital communications, is to contribute to the growth of brands in the most important product-market combinations.

The acceleration and increase in the decisiveness, effectiveness, efficiency and cost reduction in production facilities worldwide as well as in offices in Europe (*Fast Forward* project) are essential in terms of making investments possible and increasing competitive strength.

FrieslandCampina's financial foundation is solid and provides an excellent starting position for the realisation of plans in the context of the *route2020* strategy. It is expected that in 2017, FrieslandCampina will be able to comply with the financial ratios specified by its financiers.

FrieslandCampina does not make any pronouncements concerning the development of the result in 2017.

Management statement

The Executive Board bears ultimate responsibility for managing the risks inherent in the Company's objectives, and for the reliability of the external (financial) reporting. The Executive Board is also responsible for evaluating the effectiveness of the measures to prevent or mitigate these risks.

The Executive Board has evaluated the internal management and control measures. On this basis the Executive Board believes that at the end of the 2016 financial year, the internal management and control measures of the Company were functioning sufficiently effectively to provide a reasonable degree of assurance that:

- the Executive Board will be notified in good time about the level of achievement of the Company's strategic, operational and financial objectives, and
- the external (financial) reporting does not contain any material misstatements.

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

Executive responsibility

In accordance with Section 5:25c paragraph 2 sub c of the Dutch Financial Supervision Act (Wft), the members of Royal FrieslandCampina N.V.'s Executive Board herewith state that, insofar as they are aware, the Company's financial statements provide a true and fair view of the assets, liabilities, financial position and result of Royal FrieslandCampina N.V. and the companies jointly consolidated; and that the annual report provides an accurate overview of the situation as at 31 December 2016, the progress and operations during the relevant financial year within Royal FrieslandCampina N.V. and the consolidated companies; and that the principal risks that Royal FrieslandCampina N.V. is confronted with are set out in the Annual Report.

Executive board

Roelof (R.A.) Joosten
Chief executive officer

Hein (H.M.A.) Schumacher
Chief financial officer

Bas (S.G.) van den Berg
Chief operating officer

Piet (P.J.) Hilarides
Chief operating officer

Roel (R.F.) van Neerbos
Chief operating officer

Tine (M.A.K.) Snels
Chief operating officer

Amersfoort (Netherlands), 24 February 2017

傷心酸辣粉
觀奇洋服
新明星
時代
Kwun Kee Tailor 觀奇洋服
Kwun Kee Tailor
特有LockNutri營養鎖留系統
肚仔輕鬆好EASY
Friso美素佳兒
LockNutri
龍城大藥坊 正貨商店
龍城大藥坊
LONG CHENG DA YAO FAI
7 ELEVEN

Report of the Supervisory Board

During the year under review, the Supervisory Board carried out its tasks in accordance with the applicable laws and regulations and the Articles of Association of Royal FrieslandCampina N.V. The Supervisory Board also exercised supervision over the policy pursued by the Executive Board and provided advice to the Executive Board.

Financial statements and profit appropriation

In the meeting of the Supervisory Board of 24 February 2017, the Supervisory Board discussed the 2016 financial statements with the Executive Board, and approved the financial statements, after obtaining the advice of the Audit Committee, which had previously discussed the financial statements in February. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which provided an unqualified auditor's report on them, and will be presented for adoption to the General Meeting of Shareholders of 12 April 2017. Of the 362 million euro profit, 80 million euros will be attributed to the non-controlling interests and 229 million euros will be added to the retained earnings. The remaining profit will be appropriated as follows: 44 million euros will be reserved for the interest compensation to holders of member bonds and 9 million euros will be reserved for the interest compensation for the Cooperative's loan to the Company.

The General Meeting of Shareholders will also be asked to discharge the members of the Executive Board for their management during the 2016 financial year. Furthermore, the Members' Council will be asked to discharge the members of the Supervisory Board for their supervision of the Executive Board during the 2016 financial year.

On 12 April 2017 the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. will be asked to grant approval to the decision to adopt the 2016 financial statements of Royal FrieslandCampina N.V., including the profit appropriation. This decision is taken by the Board of the Cooperative, which exercises the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of Royal FrieslandCampina N.V.

Supervisory Board: composition, independence and diversity

Composition and independence

FrieslandCampina's Supervisory Board comprises thirteen members. Nine members are also members of the Board of Zuivelcoöperatie FrieslandCampina U.A., while the other members are external Supervisory Board members. All external Supervisory Board members (being members who are not also a member of the Board of the Cooperative) are independent in the sense of the Corporate Governance Code and the Supervisory Board's regulations.

The composition of the Supervisory Board and its committees as at 24 February 2017 can be found on pages 163 to 167. The composition of the Supervisory Board changed during the year under review.

On 20 December 2016 Piet Boer stepped down as Chairman and member of the Supervisory Board due to the expiry of his term under the Articles of Association and he was ineligible for reappointment. From 1989, Piet Boer occupied various positions within various legal predecessors of the current FrieslandCampina. FrieslandCampina developed successfully under his leadership. The results have improved and as a consequence the added value for the Cooperative's member dairy farmers has increased. Piet Boer was appointed Chairman of the Supervisory Board in December 2011. The Supervisory Board owes him a debt of gratitude for the way in which he has provided leadership over the past five years. Piet Boer is succeeded as Chairman by Frans Keurentjes, who has been a member of the Supervisory Board of FrieslandCampina (and its legal predecessors) since December 2006.

On 20 December 2016 Simon Ruiter, whose term under the Articles of Association also expired and who was also ineligible for reappointment, stepped down from the Supervisory Board. The board also owes him a debt of gratitude for his long-term and major contribution to the supervision of the Company.

Erwin Wunnekink succeeded Jan Keijsers as Vice-Chairman of the Board and Vice-Chairman of the Supervisory Board. Jan Keijsers, who was Vice-Chairman since 16 December 2014, will remain a member of the Supervisory Board until December 2017, which is when his term under the Articles of Association expires and he is ineligible for reappointment.

Hans Hettinga and Gjalt Mulder joined the Supervisory Board on 20 December 2016.

Diversity
The aim is to achieve a balanced composition of the Supervisory Board, where the combination of different experiences, skills and independence of its members best enables the Supervisory Board to discharge its various obligations in relation to the Company and its stakeholders. The aim is to achieve a balanced ratio of men and women on the Supervisory Board. The target in this respect is to have at least 30 percent of the seats on the Supervisory Board occupied by women.

Two of the internal members of the Supervisory Board are women. This in any case secures the representation of women members within the Cooperative (approximately 15 percent). In 2016, two male supervisory directors were appointed as member of the Supervisory Board as a direct consequence of their appointment as member of the Cooperative's Executive Board by the Cooperative's Members' Council. The aim for a balanced participation of women and men was taken into consideration in these appointments. For a subsequent vacancy on the Supervisory Board, the Remuneration and Appointment Committee shall once again specifically indicate in its search criteria that female candidates are desired for the position.

Meetings and activities of the Supervisory Board

The Supervisory Board met seven times during the year under review, with a 95 percent member attendance ratio. Outside the regular meetings there was also contact among members of the Supervisory Board, as well as with members of the Executive Board. To prepare for the meetings, the Chairman and Vice-Chairman regularly spoke with the CEO, among others.

The agenda of the Supervisory Board contained topics such as the Company's strategy, the financial position and the development of the results of the Company and the business groups, where the Audit Committee reported on its findings to the Supervisory Board. The annual budget, acquisitions, major investment proposals and the progress of major investment projects, changes in management and the internal risk management received due attention. In February of the year under review, the 2015 financial statements and the text of the Annual Report were discussed with the Executive Board and the external accountant, and approved by the Supervisory Board. The report concerning the findings for the first half-year and the management letter were explained by the external auditor and discussed with management. No material areas for attention were noted in these documents. However, ongoing attention was requested for testing the most important processes by the organisation itself, as specified in the Internal Control Framework. The importance of adhering to testing procedures was emphasised in this respect, which management endorsed.

In 2016, special attention was devoted to the following topics:

- The strategic testing in particular devoted attention to sustainability, the activities in China and Germany, and the changes in the deployment of people and resources as a result of the strategic decisions made. In addition, the strategy concerning the infant nutrition category was discussed in the context of the changing laws and regulations in many countries in this area.
- The dynamic of the dairy sector was a topic of repeated discussion and the Supervisory Board also discussed the proposed measures within the dairy sector designed to address the phosphate surplus within the sector. Furthermore, on grounds of exceptional circumstances, in December 2016 the Supervisory Board supported the proposed temporary standstill measure to go into effect on 9 January 2017 to maintain a balance between the milk supply and the available processing capacity. The Supervisory Board was informed of the changes in the Cooperative's regulations, which, where necessary, were submitted for approval and approved by the Supervisory Board. One of these changes pertained to the reserve policy, which was extensively discussed with management. The Supervisory Board was also informed about the development of the Cooperative's strategy.
- The Supervisory Board approved the acquisition of a 51-percent interest in the shares of Engro Foods limited. Engro Foods is the second largest dairy company in Pakistan and this transaction enables FrieslandCampina to acquire a key position in Central Asia.
- During the review of the historical analysis of major investment projects, the Supervisory Board discussed whether and to what extent the assumptions made in the investment proposals were correct.
- In discussing the key business risks and mitigating measures, attention was devoted in the year under review to the similarities and differences with the risk analysis for the Cooperative.

In September 2016 the Supervisory Board visited FrieslandCampina's subsidiaries in Myanmar and Thailand. During these visits the Board also devoted attention to the course of business operations and the strategic and other plans of the subsidiaries concerned, and of the subsidiaries in Indonesia and Vietnam. In addition, the Consumer

Products Asia business group's strategy was presented and discussed during this visit. In October 2016, a working visit was made to the production facility in Leeuwarden (Netherlands). Several initiatives were discussed during this visit, including the almost completed expansion and replacement project and the programme initiated to improve the efficiency of the supply chain.

Topics such as remuneration, composition of the Executive Board and Supervisory Board, diversity, talent management and succession planning, as well as the evaluation of the performance of the Executive Board, were in part discussed in the absence of the Executive Board. These subjects were always prepared in advance by the Remuneration and Appointment Committee. During these meetings, the meetings of the Supervisory Board were also evaluated and certain topics were the subject of further reflection. With a view to the many changes in the composition of the Supervisory Board, it was decided to defer the evaluation of the Supervisory Board by one year.

Supervisory Board committees

The Supervisory Board established two committees that provide advice to the Board about specific tasks and prepare specific decisions. These are the Audit Committee and the Remuneration and Appointment Committee. The tasks of these committees follow from the committee's regulations, which are posted on the Company's website and summarised in the chapter on corporate governance.

Audit Committee

Composition and expertise

As at 24 February 2017, the Audit Committee consisted of Ben van der Veer (Chairman), René Hooft Graafland, Sandra Addink-Berendsen and Angelique Huijben-Pijnenburg. Furthermore, other internal Board members attend the meetings of the Audit Committee as observer on a rotating basis. In December, the composition of the Audit Committee changed as follows: Simon Ruiter and Erwin Wunnekink stepped down as at 20 December 2016; Simon Ruiter in relation to his retirement as a member of the Supervisory Board having reached the end of his last term and Erwin Wunnekink in relation to becoming Vice-Chairman of the Supervisory Board effective on the same date. They were succeeded by Angelique Huijben-Pijnenburg and Sandra Addink-Berendsen. Ben van der Veer and René Hooft Graafland each qualify as financial expert in the sense of the Supervisory Board's regulations.

Activities

During the year under review, the Audit Committee met five times in the presence of management, including the CEO and CFO. The external auditor was also present at the four regular meetings. The fifth, non-regular meeting concerned the accounting and other financial aspects of the Engro Foods acquisition proposal. There also was contact among the members of the Committee and with management, outside the meetings. After each meeting, the Chairman reported to the Board on the findings of the Audit Committee. In addition, the Audit Committee meets twice a year with the external auditor in the absence of the Executive Board.

The 2015 Annual Report and financial statements were discussed, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report. During discussions of the Company's results, the annual and half-year reports, the Audit Committee in particular devoted attention to the more technical reporting aspects.

The planned activities of the new external auditor were discussed on the basis of the external auditor's Audit Plan, which was approved by the Audit Committee. The 2016 semi-annual report, the findings of the external auditor with respect to the half-year report and the interim audit findings were extensively covered during the year under review. The list of assignments provided to the external auditor by the Company was approved by the Audit Committee on four occasions during the year under review, and the Audit Committee is of the view that the external auditor maintained its independence.

A number of managers (Internal Audit, Internal Control, Enterprise Risk Management, Accounting, Treasury, ICT and Tax) regularly reported on their activities to the Audit Committee during its meetings. Each year the Audit Committee discusses and approves the internal auditor's Audit Plan and activities. At each meeting, the internal auditor's audit findings and the progress on the follow-up actions arising from earlier findings are discussed. Furthermore, the Audit Committee was informed about the operation of the Internal Control Framework and the analysis concerning the separation of duties. The Audit Committee was also briefed on the outcome of the analysis of the key business risks and the measures being implemented to mitigate these risks. The Audit Committee was also informed about the progress of the implementation of the financial function's strategy.

Specific accounting subjects that were the topic of discussion included the addition of the Consumer Products China business group as part of the financial reporting, and the financial and technical accounting aspects of the acquisition of the 51-percent interest in Engro Foods.

In relation to ICT, specific attention was devoted to cyber security and the actions required to increase cyber security. The progress of the Summit project was also dealt with during each meeting; in this respect attention continued to be focused on risk management, the evolving costs and the quality of the implementation process. In the area of industrial automation, the required improvements were discussed as was the timeframe over which they will be implemented.

An overview of material claims was also discussed and management reported on compliance with the FrieslandCampina code of conduct, *Compass*. The financing strategy was also set out and there was discussion on how to develop an integrated reporting approach in the area of corporate social responsibility.

The 2016 Annual Report and financial statements were discussed in February 2017, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report.

Remuneration and Appointment Committee
Composition (as at 24 February 2017)
The Remuneration and Appointment Committee comprises Peter Elverding (Chairman), Frans Keurentjes and Jan Keijsers. Furthermore, Erwin Wunnekink attends the meetings as an observer until the end of 2017, which is when he replaces Jan Keijsers as a member of the Committee. The composition of the Remuneration and Appointment Committee changed as at 20 December 2016, due to the stepping down of Piet Boer as member and Chairman of the Supervisory Board in relation to reaching the end of his last term. Frans Keurentjes succeeded Piet Boer.

Activities
The Remuneration and Appointment Committee met six times during the year under review and after each meeting reported to the Supervisory Board. There was also contact among the members of the Committee and with management, outside the meetings.

The composition of the Executive Board and some changes to the organisation's senior management were key areas for attention for the Remuneration and Appointment Committee during the year under review. In this respect, the Committee made the necessary preparations for the Supervisory Board for the appointment of a new member to the Executive Board responsible for the Consumer Products Europe, Middle East & Africa business group and the Committee provided the Board with advice concerning the appointment of the executive director charged with responsibility for the Consumer Products China business group.

The Committee made the necessary preparations for the evaluation of the members of the Executive Board. During the year under review, the Committee conducted evaluation interviews with the members of the Executive Board, on which it reported in the meetings of the Supervisory Board.

Another area of activity of the Remuneration and Appointment Committee during the year under review was the remuneration of the Executive Board. In this respect the Committee addressed matters such as the determination of the variable short-term and long-term remunerations and the setting of targets for the variable short-term remuneration for the upcoming year. In April 2016, the details concerning the remuneration of the members of the Executive Board and the Supervisory Board were reported to the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. During the year under review, the Committee also evaluated the other positions of the members of the Executive Board, with due consideration for the compatibility of these positions with their current position.

Composition and diversity of the Executive Board
Composition
The composition of the Executive Board changed in 2016. Tine Snels, who as at 1 June 2015 was appointed Executive Director of the Ingredients business group, was appointed Chief Operating Officer and member of the Executive Board as at 1 June 2016, and in this capacity continues to be responsible for the Ingredients business group.
As at 31 December 2016, Gregory Sklikas stepped down as a member of the Executive Board after spending ten years with FrieslandCampina. During the first six years he was Managing Director of the FrieslandCampina Hellas operating company in Greece. After this he was responsible for four years for the Consumer Products Europe, Middle East & Africa business group as Chief Operating Officer. Gregory Sklikas has decided to pursue his career outside FrieslandCampina.

The Supervisory Board is grateful to Gregory Sklikas for his valuable contribution during the years he spent with FrieslandCampina. His insights, passionate efforts and commitment inspired many and further professionalised the business group. Gregory Sklikas is succeeded by Roel van Neerbos, who, as a member of the Executive Board, assumed responsibility for the Consumer Products Europe, Middle East & Africa business group as at 1 January 2017.

The Executive Board comprises six members. The full composition of the Executive Board and the distribution of the portfolio among its members is reported on pages 168 and 169.

Diversity of the Executive Board
The aim is to achieve a balanced composition of the Executive Board with a balanced participation of men and women. This means that at least 30 percent of the seats on the Executive Board should be occupied by women. The Executive Board comprises five male and one female member. For the vacancy on the Executive Board that arose in 2016 and that was filled with the appointment of Roel van Neerbos as at 1 January 2017, there were no suitable female candidates. The Remuneration and Appointment Committee shall specifically involve women candidates in the recruitment and selection process for any future vacancies. Since, in general, the preference is to recruit internal candidates, it is important in this respect that the ranks below the Executive Board also include sufficient women candidates. FrieslandCampina pursues a diversity policy focused on increasing the number of women in these ranks.

Appreciation
The Supervisory Board is very grateful to the members of the Executive Board and to all employees of FrieslandCampina for their tremendous efforts and dedication in 2016.

Supervisory Board

Amersfoort (Netherlands), 24 February 2017

Roster of appointments and retirements of the Supervisory Board (as at 20 December 2016)

	Start Date	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
J.W. Addink-Berendsen	2014		›				›				‹		
B.E.G. ten Doeschot	2015			›				›				‹	
P.A.F.W. Elverding	2008			‹				‹›				›	
L.W. Gunning	2011			›				‹				‹›	
H.T.J. Hettinga	2016				›				›				‹
D.R. Hooft Graafland	2015		›				›				‹		
A.A.M. Huijben-Pijnenburg	2010		›				‹				‹›		
J.P.C. Keijsers	2006	‹				‹›				›			
F.A.M. Keurentjes	2008		› [1]				‹				‹›		
G. Mulder	2016				›				›				‹
H. Stöcker	2011			›				‹				‹›	
B. van der Veer	2009	›				‹				‹›			
W.M. Wunnekink	2009	›				‹				‹›			

› stepping down, eligible for reappointment
‹ stepping down, ineligible for reappointment
‹› successor of current member is stepping down, eligible for reappointment

[1] eligible as Chairman for an additional term under the Articles of Association.

Corporate governance

Corporate governance at a glance

Basic principles

Royal FrieslandCampina N.V. (the 'Company') applies the principles of the Dutch Corporate Governance Code (the 'Code') on a voluntary basis. The manner in which these principles are applied is described in this section. This includes an indication and motivation of the points in which the Code is not applied by the Company. Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') is exempt from application of the two-tier regime. The Company is a two-tier company. A covenant has been agreed with the Central Works Council (the 'CWC') on the grounds of which the members of the Company's Supervisory Board (the 'Supervisory Board') are appointed by the Supervisory Board, the so-called co-optation system.

Shareholder structure

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

Board structure

The Company has a so-called 'two-tier structure' with an Executive Board and a Supervisory Board. The Executive Board comprises six members, a Chief Executive Officer (CEO), a Chief Financial Officer (CFO) and four Chief Operating Officers (COOs), each with their own area of responsibility. The Executive Board's composition and division of tasks is explained on pages 168 and 169.

The Supervisory Board comprises nine members of the Board of the Cooperative plus four 'external' members. The composition of the Supervisory Board can be found on pages 163 to 167.

Supervisory Board committees

The Supervisory Board has formed two committees: the Audit Committee, which comprises four Supervisory Board members, and the Remuneration & Appointment Committee, which comprises three Supervisory Board members. The composition of the Supervisory Board's Committees can be found on page 167.

Report of the Supervisory Board

The topics covered in the report of the Supervisory Board include the activities of the Supervisory Board and its Committees during the year under review. This report is included on pages 62 to 66.

The corporate governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies. All of this information is published on FrieslandCampina's website. Although the Code is not applicable to the Company, because according to the law only listed companies are governed by the Code, the Company applies the principles and best practices provisions of the Code that are compatible with its control structure and the nature of the Cooperative. The provisions that are not applied are specified in this overview along with the reasons why they are deemed inappropriate. During the year under review there were no structural changes to the governance structure. The Code was amended as per 1 January 2017. The Company will continue to observe the Code as amended and will amend the regulations, Articles of Association and procedures during 2017 accordingly insofar as this is necessary.

Executive Board

Tasks and responsibilities

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

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

Appointment

The members of the Executive Board are appointed by the Supervisory Board for an indefinite period. The basis for non-compliance with the recommendation of the Code (appointment for a maximum term of four years) is the fact that the Cooperative, and with it also the Company, is oriented towards the long term. The Supervisory Board notifies the General Meeting of Shareholders of an intended appointment and does not dismiss members of the Executive Board until after the General Meeting of Shareholders has expressed its opinion.

Remuneration policy Executive Board

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

Supervisory Board

The Supervisory Board supervises the policy of the Executive Board and the general course of events in the Company and its business, and advises the Executive Board. The Supervisory Board discusses with the Executive Board the strategy and main risks relating to the Company's operations and the structure, the functioning of and any significant changes relating to the risk management and control systems.

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

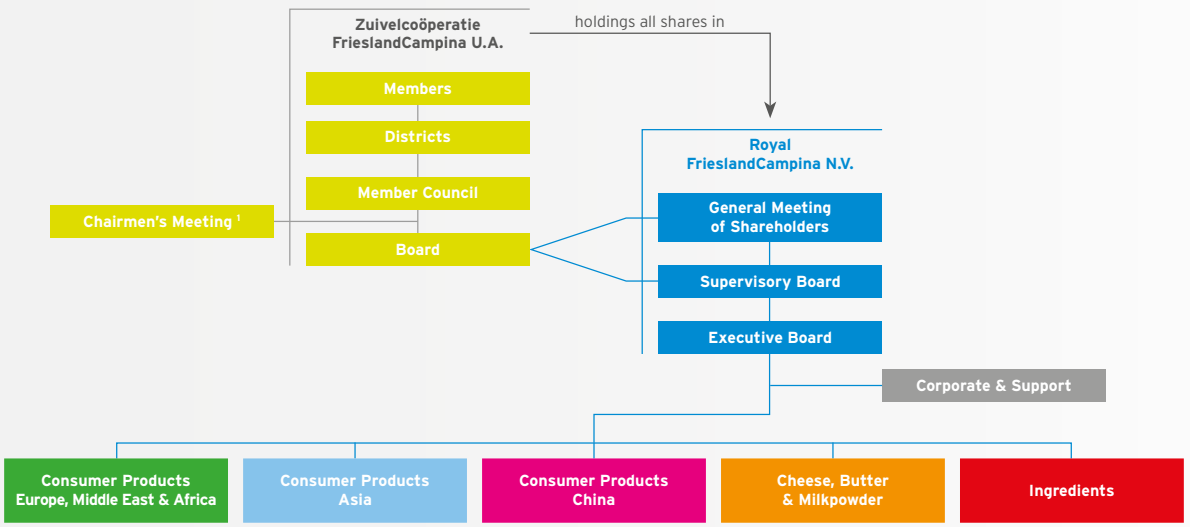
In the performance of their duties the members of the Supervisory Board are led by the interests of the Company and its associated companies and take into account the relevant interests of all the Company's stakeholders. The Supervisory Board also considers Corporate Social Responsibility aspects relevant to the Company.

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

The chosen composition reflects the two-third dominance of internal members in a Supervisory Board permitted by the law for large cooperatives. This dominance by internal members is carried through to the Company level. This stipulation deviates from the Code's best practice provision which states that all Supervisory Board members, with the exception of a maximum of one member, must be independent. All the external Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board member is a so-called financial expert, which means that he or she has acquired relevant expertise and experience in the field of financial administration/ accounting with a large legal entity.

Membership of other Supervisory Boards and the holding of other positions by both Supervisory Board members and Executive Board members is evaluated by the Supervisory Board on a case-by-case basis, taking into consideration the nature of the membership or other position and the demands it would place on the time of the member concerned. Every member of the Supervisory Board and the Executive Board must ensure that he or she devotes sufficient time and attention to the Company to guarantee his or her duties are fulfilled properly. None of the Supervisory Board members may hold more than five Supervisory Board memberships and/or other supervisory functions with Dutch stock exchange listed companies or other large companies and foundations, with a chairmanship counting as double.

Organisational structure



[1] The Chairmen of the 21 District Councils

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

The term of office of a Supervisory Board member who is also a member of the Board of the Cooperative always ends upon the termination of the Board of the Cooperative membership. Information concerning the dates of (re) appointment and current terms of the Supervisory Board members can be found in the appointment and resignation roster on page 66.

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

Supervisory Board committees

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

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

The duties of the Remuneration & Appointment Committee include:

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

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

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

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

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

Conflict of interests

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

The General Meeting of Shareholders

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

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

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

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

Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company with its registered office in Amersfoort, the Netherlands, with its central office at Stationsplein 4, Amersfoort. The Company's Articles of Association were most recently amended as per 1 January 2017 and are published on the Company's website. The latter amendments included the implementation of new legislation in the Articles of Association. The Company is registered in the Chamber of Commerce's Trade Register under number 11057544. On 31 December 2016 the Company's authorised capital amounted to 1 billion euro divided into 10,000,000 (ten million) shares with a nominal value of 100 euro. The shares are registered. On the same day 3,702,777 shares were issued, which have all been paid up and are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, pre-emptive right, acquisition of own shares and capital reduction please refer to the Company's Articles of Association.

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

Financial reporting

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

External auditor

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

Internal audit function

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

Best practice provisions of the Code not applied by FrieslandCampina

The Company fully endorses the Code by applying the principles and best practice provisions or by explaining why the Company deviates from the Code. The provisions listed below are not applied for reasons as set out above and/or below:

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

FrieslandCampina
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Financial statements 2016

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Consolidated income statement

In millions of euros	Note	2016	2015 [1]
Revenue	(2)	11,001	11,210
Cost of goods sold	(3)	-9,075	-9,210
Gross profit		**1,926**	2,000
Advertising and promotion costs	(3)	-540	-536
Selling, general and administrative costs	(3)	-810	-802
Other operating costs	(4)	-46	-98
Other operating income	(4)	33	12
Operating profit		**563**	576
Finance income	(5)	18	13
Finance costs	(5)	-59	-56
Share of profit of joint ventures and associates, net of tax	(10)	20	15
Profit before tax		**542**	548
Income tax expense	(6)	-180	-205
Profit for the year		**362**	343
Profit attributable to:			
• holders of member bonds		44	42
• provider of Cooperative loan		9	10
• shareholder		229	218
• shareholder and other providers of capital		**282**	270
• non-controlling interests		80	73
Profit for the year		**362**	343

[1] See page 84 of the basis of preparation of the consolidated financial statements for an explanation of the adjustment of the comparative figures.

Consolidated statement of comprehensive income

In millions of euros		**2016**		2015
Profit for the year		**362**		343
Items that will or may be reclassified to the income statement:				
Effective portion of cash flow hedges, net of tax	-8		8	
Currency translation differences, net of tax	-10		18	
Share in other comprehensive income of joint ventures and associates accounted for using the equity method, net of tax	2			
Net change in fair value of available-for-sale financial assets, net of tax	3		13	
		-13		39
Items that will never be reclassified to the income statement:				
Remeasurement of liabilities (assets) under defined benefit plans, net of tax	-34		22	
		-34		22
Other comprehensive income, net of tax		**-47**		61
Total comprehensive income for the year		**315**		404
Total comprehensive income attributable to:				
• shareholder and other providers of capital		243		334
• non-controlling interests		72		70

Consolidated statement of financial position

At 31 December, in millions of euros	Note	2016	2015
Assets			
Property, plant and equipment	(7)	3,228	2,932
Intangible assets	(8)	1,980	1,383
Biological assets	(9)	8	
Deferred tax assets	(18)	344	341
Joint ventures and associates	(10)	126	126
Employee benefits	(17)	6	6
Other financial assets	(11)	165	174
Non-current assets		**5,857**	4,962
Inventories	(12)	1,527	1,307
Trade and other receivables	(13)	1,392	1,294
Income tax receivable		28	12
Other financial assets	(11)	51	5
Cash and cash equivalents	(14)	514	821
Assets held for sale	(15)	5	20
Current assets		**3,517**	3,459
Total assets		**9,374**	8,421
Equity			
Issued capital		370	370
Share premium		114	114
Other reserves		-51	-46
Retained earnings		876	670
Equity attributable to shareholder		**1,309**	1,108
Member bonds		1,564	1,428
Cooperative loan		296	296
Equity attributable to shareholder and other providers of capital		**3,169**	2,832
Non-controlling interests		475	261
Total equity	(16)	**3,644**	3,093
Liabilities			
Employee benefits	(17)	539	528
Deferred tax liabilities	(18)	247	118
Provisions	(19)	14	23
Interest-bearing borrowings	(20)	1,152	1,015
Other financial liabilities	(21)	98	20
Non-current liabilities		**2,050**	1,704
Interest-bearing borrowings	(22)	558	813
Trade and other payables	(23)	2,908	2,604
Income tax payable		170	151
Provisions	(19)	36	43
Other financial liabilities	(21)	8	12
Liabilities held for sale	(15)		1
Current liabilities		**3,680**	3,624
Total liabilities		**5,730**	5,328
Total equity and liabilities		**9,374**	8,421

Consolidated statement of cash flows

In millions of euros	Note		2016		2015
Cash flows from operating activities					
Profit before tax			**542**		548
Adjustments for:					
• interest	(5)	28		43	
• depreciation of plant and equipment and amortisation of intangible assets	(7) (8)	307		275	
• impairments of fixed and intangible assets and reversals of impairments	(7) (8)	22		36	
• share of profit of joint ventures and associates	(10)	-20		-15	
• other finance income and costs		10		-9	
• issue of member bonds-fixed		135		129	
• gain on disposals		-28		3	
• granted insurance compensation				-8	
Total adjustments			**454**		454
Movements in:					
• inventories		-196		-18	
• receivables		-77		91	
• liabilities		318		199	
• employee benefits		-32		-108	
• provisions	(19)	-16		25	
Total movements			**-3**		189
Cash flows from operating activities			**993**		1,191
Dividends received			20		11
Income tax paid			-140		-134
Interest paid			-40		-63
Interest received			17		6
Insurance compensation received - operating activities					8
Net cash flows from operating activities			**850**		1,019
Investing activities					
Investments in property, plant and equipment and intangible assets		-567		-570	
Disposals of property, plant and equipment, intangible assets and assets held for sale		26		10	
Divestments of businesses, net of cash and cash equivalents		30			
Received repayments of loans issued		2		13	
Loans issued		-22		-1	
Acquisitions, net of cash and cash equivalents acquired	(1)	-423		-130	
Investments in securities	(11)	-1		-27	
Net cash flows used in investing activities			**-955**		-705
Financing activities					
Investments in non-controlling interests				-182	
Dividends paid to non-controlling interests		-77		-74	
Interest payment to holders of member bonds		-36		-35	
Interest-bearing borrowings drawn		709		606	
Repayment of interest-bearing borrowings		-902		-544	
Transactions with holder of put option	(1)	80			
Settlement of derivatives and other		-1		1	
Net cash flows used in financing activities			**-227**		-228
Net cash flow			**-332**		86
Cash and cash equivalents at 1 January [1]			718		606
Net cash flow			-332		86
Currency translation differences on cash and cash equivalents			-32		26
Cash and cash equivalents at 31 December [1]			**354**		718

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

Consolidated statement of changes in equity

In millions of euros											**2016**
					Other reserves						
	Issued capital	Share premium reserve	Member bonds	Coopera-tive loan	Fair value reserve	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity** [1]	Non-con-trolling interests	**Total**
At 1 January	370	114	1,428	296	24	-25	-45	670	**2,832**	261	**3,093**
Comprehensive income:											
• profit for the year			44	9				229	**282**	80	**362**
• other comprehensive income					3	-8		-34	**-39**	-8	**-47**
Total comprehensive income for the year			**44**	**9**	**3**	**-8**		**195**	**243**	**72**	**315**
Transactions with shareholder and other providers of capital recognised directly in equity:											
• dividends paid to non-controlling interests										-77	**-77**
• interest payment to provider of Cooperative loan				-9				2	**-7**		**-7**
• interest payment to holders of member bonds			-43					9	**-34**		**-34**
• issue of member bonds - fixed			135						**135**		**135**
Total transactions with shareholder and other providers of capital			**92**	**-9**				**11**	**94**	**-77**	**17**
Changes in ownership interests in subsidiaries:											
• acquisition of subsidiary with non-controlling interest										219	**219**
Total changes in ownership interests in subsidiaries										**219**	**219**
At 31 December	**370**	**114**	**1,564**	**296**	**27**	**-33**	**-45**	**876**	**3,169**	**475**	**3,644**

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

In millions of euros 2015

	Issued capital	Share premium reserve	Member bonds	Coopera-tive loan	Other reserves: Fair value reserve	Other reserves: Cash flow hedge reserve	Other reserves: Currency translation reserve	Retained earnings	**Equity** [1]	Non-con-trolling interests	**Total**
At 1 January	370	114	1,300	296	11	-33	-66	595	2,587	236	2,823
Comprehensive income:											
• profit for the year			42	10				218	270	73	343
• other comprehensive income					13	8	21	22	64	-3	61
Total comprehensive income for the year			42	10	13	8	21	240	334	70	404
Transactions with shareholder and other providers of capital recognised directly in equity:											
• dividends paid to non-controlling interests										-74	-74
• interest payment to provider of Cooperative loan				-10				2	-8		-8
• interest payment to holders of member bonds			-43					9	-34		-34
• issue of member bonds – fixed			129						129		129
Total transactions with shareholder and other providers of capital			86	-10				11	87	-74	13
Changes in ownership interests in subsidiaries:											
• acquisition of subsidiary with non-controlling interest										36	36
• transactions with owners of non-controlling interests								-176	-176	-7	-183
Total changes in ownership interests in subsidiaries								-176	-176	29	-147
At 31 December	370	114	1,428	296	24	-25	-45	670	2,832	261	3,093

Notes to the consolidated financial statements

In millions of euros, unless stated otherwise

General

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The Company is registered in the Chamber of Commerce's Trade Register, Nr 11057544. The consolidated financial statements for the year ended 31 December 2016 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

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

FrieslandCampina processes approximately 11 billion kilograms of milk per year into a very varied range of dairy products containing valuable nutrients for consumers. In the professional market, FrieslandCampina is a key supplier of dairy products to bakeries, restaurants, bars and fast-food chains. FrieslandCampina also produces and supplies high-quality ingredients for manufacturers in the food industry and pharmaceutical sector.

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

Basis of preparation

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

During the assessment of the impact of IFRS 15 'Revenue from Contracts with Customers' on its consolidated financial statements, FrieslandCampina more closely investigated the revenue recognition for certain contracts. This has resulted in a reduction of EUR 55 million to revenue and cost of goods sold for sales with a buy-back element in the 2015 comparative figures. This adjustment does not affect the gross profit, the Company's equity or the balance sheet total.

Statement of compliance

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

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

After authorisation for issue by the Executive Board and the Supervisory Board on 24 February 2017 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2016 will be made available for publication by the Executive Board on 2 March 2017. On 12 april 2017 the financial statements will be submitted for approval to the General Meeting of Shareholders of Royal FrieslandCampina N.V. being Zuivelcoöperatie FrieslandCampina U.A., represented by its Board.

Basis of measurement

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

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

Segmentation

From 2016 onwards, the information with respect to segment reporting is no longer included in the Notes.

Functional and presentation currency

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis taking into account the opinions and advices of (external) experts. Changes in estimates are recognised in the period in which the estimates are revised and in any future periods affected. The estimates and assumptions considered most critical are:

- impairments (Notes 7, 8 and 15);
- useful life of property, plant and equipment and intangible assets (Notes 7 and 8);
- utilisation of tax losses and uncertain tax positions (Notes 6, 18 and 24);
- measurement of defined benefit obligations (Note 17);
- key assumptions used in discounted cash flow projections (Notes 8 and 27);
- provisions and contingencies (Notes 19 and 24);
- key assumptions used to determine the fair value of business combinations and financial instruments (Notes 1 and 27).

Consolidation of entities

FrieslandCampina holds a direct interest of 50% in DMV-Fonterra Excipients GmbH & Co. KG. In addition, FrieslandCampina has an interest of 50% in China Huishan Dairy Investments (Hong Kong) Ltd.
On 19 December 2016, FrieslandCampina acquired a 51% interest in Engro Foods Ltd. FrieslandCampina has control over these entities, among others due to a majority in the management board and the entity's dependence on the know-how, brands and supply of goods made available by FrieslandCampina. These entities are therefore fully consolidated with the recognition of a non-controlling interest.

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

On 11 April 2016 FrieslandCampina sold its 49% interest in subsidiary Sahnemolkerei Hubert Wiesehoff GmbH. From this date forward this entity is no longer consolidated.

For more detailed information regarding the above see Notes 1, 16 and 27 of the financial statements.

1 Acquisitions

Acquisitions 2016

Engro Foods

On 19 December 2016, FrieslandCampina, in partnership with the International Finance Corporation ('IFC') of the World Bank and Financierings-Maatschappij voor Ontwikkelingslanden N.V. ('FMO'), acquired a 51% interest in Engro Foods Ltd. ('Engro Foods') against payment of an amount of EUR 436 million. A 40% interest is held by the former majority shareholder, Engro Corporation Ltd. The remaining 9% is listed on the Pakistan Stock Exchange. With the acquisition of the interest in Engro Foods, FrieslandCampina acquires a position in Central Asia. Engro Foods has a leading position in Pakistan in the long-life milk segment, including the segment of milk for specific use in tea.

The structure of the transaction comprises the acquisition of a 51% share in Engro Foods by a Dutch legal entity managed by FrieslandCampina. At the time of the transaction, FrieslandCampina holds 80% of this Dutch legal entity, with IFC and FMO holding the remaining shares. FrieslandCampina issued a put option to IFC and FMO with respect to their interest that may be partly exercised for the first time at the beginning of 2022. The fair value of the long-term put option liability amounts on acquisition date EUR 80 million. In addition, FrieslandCampina holds a call option on the interest that can be exercised for the first time at the beginning of 2025.

Since 19 December 2016 Engro Foods has been consolidated as part of the business group Consumer Products Asia, with the recognition of a non-controlling interest.

The fair value of the assets acquired and liabilities assumed as recognised on acquisition date are:

Property, plant and equipment	156
Intangible assets	378
Biological assets	8
Inventories	46
Trade receivables and other assets	43
Cash and cash equivalents	14
Deferred tax liabilities	-140
Other payables	-59
Total identifiable assets and liabilities	**446**

The fair value of the assets acquired and liabilities assumed has been determined on the basis of the purchase price allocation. FrieslandCampina has opted to value the non-controlling interest on the basis of the proportionate share of the fair value of the net identifiable assets and liabilities. Within a year after acquisition FrieslandCampina will finalise the purchase price allocation.

The trade receivables amounts to EUR 1 million. The full amount was considered collectable at the date of the acquisition.

Goodwill related to the acquisition has been recognised as follows:

Consideration paid	436
Non-controlling interest on the basis of the proportionate share in the fair value of identifiable net assets	219
Fair value of identifiable assets and liabilities	-446
Goodwill	**209**

The goodwill is primarily attributable to the synergy benefits to be achieved from integrating Engro Foods in the business group Consumer Products Asia. As the purchase price allocation has not yet been finalised, the goodwill has been recognised on a provisional basis. The goodwill recognised is fiscally non-deductible.

The acquisition-related costs amount to EUR 6 million. These costs in part relate to consulting services, external legal services and due diligence activities.

From the date of acquisition, Engro Foods contributed EUR 9 million to revenue, achieving a negative result of EUR 1 million. Management estimates that if the acquisition would have been completed as per 1 January 2016, the consolidated revenue and profit of FrieslandCampina over 2016 would have amounted EUR 11,375 million and EUR 368 million respectively.

Acquisition of FKS Frischkonzept Service GmbH

On 20 May 2016, FrieslandCampina acquired full control over the activities of FKS Frischkonzept Service GmbH ('FKS') by acquiring the remaining shares (51%) against payment of EUR 1 million. FKS' activities consist of the sale of fresh products to retailers in Germany. The fair value of the assets acquired and liabilities assumed was determined at EUR 7 million and EUR 6 million, respectively.

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

Acquisitions 2015

The acquisitions made in 2015 for which the purchase price allocation was completed in 2016, are disclosed below.

Acquisition of the distribution-related activities of Anika Group

On 21 December 2015, FrieslandCampina acquired the distribution and sales activities of infant nutrition of Anika Group against payment of the EUR 38 million purchase consideration. The acquisition resulted in goodwill of EUR 8 million, which was allocated to the business group Consumer Products EMEA.

The purchase price allocation with respect to the acquisition of these activities of Anika Group was finalised at the end of June 2016. The final purchase price allocation resulted in a change in the fair value of the acquired intangible assets and the goodwill recognised. This adjustment is reflected in the comparative figures in the consolidated balance sheet.

The final fair value of the agreed consideration was decreased by EUR 2 million because the estimate of the fair value of the contingent consideration as at the acquisition date was decreased by EUR 2 million.

The fair value of the assets acquired and liabilities assumed as recognised on the acquisition date are:

Intangible assets	22
Inventories	4
Trade receivables and other assets	4
Total identifiable assets and liabilities	**30**

Goodwill related to the acquisition has been recognised as follows:

Fair value of the assumed consideration	38
Fair value of the identifiable assets and liabilities	-30
Goodwill	**8**

Fabrelac

In September 2015, FrieslandCampina acquired Commex International S.A. and its subsidiaries Fabrelac B.V.B.A. (renamed as FrieslandCampina Bree B.V.B.A.) and PC&K Invest B.V.B.A. (jointly referred to as 'Fabrelac') in Belgium at a purchase consideration of EUR 13 million. These activities were added to the business group Cheese, Butter & Milkpowder.

The purchase price allocation relating to the acquisition of Fabrelac was completed in the end of June 2016. The final purchase price allocation resulted in a change in the fair value of the acquired plant, property and equipment, and the goodwill recognised. This adjustment is reflected in the comparative figures in the consolidated balance sheet.

The fair value of the acquired assets has been determined at EUR 29 million, which includes EUR 1 million in acquired cash and cash equivalents. The fair value of the liabilities assumed amounts to EUR 23 million. The related goodwill of EUR 7 million is mainly attributable to the anticipated synergy benefits with the integration of Fabrelac into the business group Cheese, Butter & Milkpowder.

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

2 Revenue

	2016		2015	
Revenue by geographical location of customers				
		%		%
The Netherlands	2,521	23	2,431	22
Germany	1,052	10	1,180	11
Rest of Europe	2,473	22	2,522	22
Asia and Oceania	3,523	32	3,403	30
Africa and the Middle East	1,053	10	1,290	12
North and South America	379	3	384	3
	11,001	**100**	11,210	100

The revenue concerns primarily the sale of goods.

3 Operating expenses

	2016	2015
Milk from member dairy farmers	-3,544	-3,514
Cost of other raw materials, consumables used and commodities	-3,273	-3,516
Employee benefit expenses	-1,074	-1,065
Depreciation of plant and equipment and amortisation of intangible assets	-307	-275
Impairments of property, plant and equipment, intangible assets and assets held for sale	-23	-26
Advertising and promotion costs	-540	-536
Transport costs	-497	-505
Work contracted out and temporary staff	-371	-407
Energy costs	-199	-210
Other	-597	-494
Total of the cost of goods sold, advertising and promotion costs and selling, general and administrative costs	-10,425	-10,548

In 2016 research and development expenses amounted to EUR 74 million (2015: EUR 73 million), of which EUR 44 million related to employee costs (2015: EUR 45 million).

For an explanation of the impairments see Notes 7, 8 and 15.

Employee benefit expenses

		2016		2015
		%		%
Wages and salaries	-868	81	-848	80
Social security charges	-108	10	-119	11
Expenses under long-term employee benefits	-98	9	-98	9
	-1,074	**100**	-1,065	100

Employees by business group (average number of FTEs)

		2016		2015
		%		%
Consumer Products EMEA	7,313	33	7,604	35
Consumer Products Asia	6,190	28	6,324	29
Consumer Products China	1,101	5	893	4
Cheese, Butter & Milkpowder	2,720	13	2,751	12
Ingredients	3,094	14	3,099	14
Corporate and other	1.509	7	1,378	6
	21,927	**100**	22,049	100

Employees by geographical region (average number of FTEs)

		2016		2015
		%		%
The Netherlands	7,523	34	7,596	34
Germany	1,602	7	1,668	8
Rest of Europe	3,797	17	3,761	17
Asia and Oceania	7,786	36	7,698	35
Africa and the Middle East	1,050	5	1,157	5
North and South America	169	1	169	1
	21,927	**100**	22,049	100

4 Other operating costs and income

	2016	2015
Other operating costs		
Costs of implementing the ICT standardisation programme	-31	-36
Restructuring costs and release of restructuring provisions	4	-38
Impairment of fixed assets (and reversals thereof) due to restructuring (Note 7)	1	-12
Other operating costs	-20	-12
	-46	-98
Other operating income		
Income related to the sale of property, plant and equipment and businesses	28	
Income arising from a fair value adjustment of contingent considerations (Note 27)	3	5
Other operating income	2	7
	33	12

5 Finance income and costs

	2016	2015
Finance income		
Interest income	11	8
Foreign exchange gains on receivables and payables		1
Other finance income	7	4
	18	13
Finance costs		
Interest expenses	-39	-51
Foreign exchange losses on receivables and payables	-14	
Other finance costs	-6	-5
	-59	-56

Other finance income and costs comprises the gain from hedging derivatives of EUR 7 million (2015: EUR 3 million). In 2016, derivatives were entered into in relation to the acquisition of the 51% interest in Engro Foods.

Foreign exchange losses on receivables and payables in 2016 primarily relate to the remeasurement of a dividend receivable from a subsidiary.

The other finance costs consist of the interest accrued on contingent considerations of EUR 2 million (2015: EUR 1 million) and of the amortisation of transaction costs and commitment fees for non-current borrowings of EUR 4 million (2015: EUR 4 million).

Foreign exchange results related to operational activities are included in the cost of goods sold or in the appropriate component of operating expenses. In 2016 FrieslandCampina included a negative foreign exchange result in operating profit of EUR 34 million (2015: EUR 0 million).

6 Income tax expense

	2016	2015
Breakdown of tax		
Current tax expense, current year	-164	-162
Adjustment for prior years	3	-14
Current tax expense	**-161**	-176
Deferred tax expense, current year	6	-18
Write-down of deferred tax assets	-25	-11
Deferred tax expense	**-19**	-29
Income tax expense	**-180**	-205

	2016		2015	
Effective tax rate	Amount	%	Amount	%
Profit before tax	542		548	
Tax payable on the basis of the Dutch tax rate	-136	25.0	-137	25.0
Effect of different tax rates outside The Netherlands	-2	0.4	-5	0.9
Share of result of joint ventures and associates	6	-1.1	4	-0.7
Withholding tax on dividends	-10	1.9	-5	0.9
Non-deductible expenses	-17	3.2	-41	7.4
Tax-exempt income	1	-0.2	4	-0.7
Write-down of deferred tax assets	-25	4.6	-11	2.0
Adjustments to estimates relating to prior years	3	-0.6	-14	2.6
Effective tax rate	**-180**	**33.2**	-205	37.4

	2016			2015		
	Before tax	Tax expense/ income	Net of tax	Before tax	Tax expense/ income	Net of tax
Income tax recognised directly in equity						
Interest Cooperative loan	-9	2	-7	-10	2	-8
Interest member bonds	-44	9	-35	-42	9	-33
	-53	**11**	**-42**	-52	11	-41
Income tax recognised as other comprehensive income						
Movement cash flow hedge reserve	-11	3	-8	11	-3	8
Movement currency translation reserve	-11	1	-10	21	-3	18
Movement joint ventures and associates accounted for using the equity method	2		2			
Movement available-for-sale financial assets	3		3	18	-5	13
Remeasurement of liabilities (assets) under defined benefit plans	-44	10	-34	29	-7	22
	-61	**14**	**-47**	79	-18	61

7 Property, plant and equipment

					2016
	Land and buildings	Plant and equipment	Other operating assets	Assets under construction	**Total**
Cost	1,415	3,523	380	582	**5,900**
Accumulated depreciation and impairments	-673	-2,043	-251	-1	**-2,968**
Carrying amount at 1 January	**742**	**1,480**	**129**	**581**	**2,932**
Acquired through acquisition	32	113	5	6	**156**
Divested due to selling businesses	-9	-2	-1		**-12**
Additions	19	30	11	395	**455**
Disposals	-1	-2	-1	-1	**-5**
Currency translation differences	-8	-5	-1	-3	**-17**
Transfers	146	232	30	-408	
Transfer to assets held for sale	-1				**-1**
Depreciation	-57	-168	-33		**-258**
Impairments	-1	-21	-1		**-23**
Reversal of impairments		1			**1**
Carrying amount at 31 December	**862**	**1,658**	**138**	**570**	**3,228**
Cost	1,582	3,824	404	570	**6,380**
Accumulated depreciation and impairments	-720	-2,166	-266		**-3,152**
Carrying amount at 31 December	**862**	**1,658**	**138**	**570**	**3,228**

					2015
	Land and buildings	Plant and equipment	Other operating assets	Assets under construction	Total
Cost	1,270	3,199	340	617	5,426
Accumulated depreciation and impairments	-633	-1,972	-232		-2,837
Carrying amount at 1 January	637	1,227	108	617	2,589
Acquired through acquisition	61	43		1	105
Additions	10	57	19	424	510
Disposals	-1	-7	-1		-9
Currency translation differences		3		2	5
Transfers	95	336	31	-462	
Transfer to assets held for sale	-6				-6
Depreciation	-50	-156	-28		-234
Impairments	-5	-24		-1	-30
Reversal of impairments	1	1			2
Carrying amount at 31 December	742	1,480	129	581	2,932
Cost	1,415	3,523	380	582	5,900
Accumulated depreciation and impairments	-673	-2,043	-251	-1	-2,968
Carrying amount at 31 December	742	1,480	129	581	2,932

The movement due to 'Acquired through acquisition' concerns property, plant and equipment of Engro Foods (2015: Friesland Huishan Dairy and Fabrelac), see Note 1.

The investments of EUR 455 million relate primarily to production capacity expansions and replacement investments in the Netherlands.

Impairments of land and buildings relate to a write-down to the appraisal value of land and buildings. EUR 13 million impairments of plant and equipment relates to production lines whose utilisation rate has significantly declined or that have been decommissioned.

The carrying amount of buildings, plant and equipment for which financial lease agreements apply was EUR 7 million (2015: EUR 9 million).

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 130 million (2015: EUR 151 million).

The investments include capitalised borrowing costs amounting to EUR 5 million (2015: EUR 8 million). The applicable average interest rate is 2.3% (2015: 2.5%).

8 Intangible assets

	Goodwill	Trademarks, customer relations and patents	Software	Other intangible assets	Intangible assets under construction	**2016** Total
Cost	1,188	306	223	3	92	**1,812**
Accumulated amortisation and impairments	-204	-79	-142	-1	-3	**-429**
Carrying amount at 1 January	**984**	**227**	**81**	**2**	**89**	**1,383**
Acquired through acquisition	209	383				**592**
Divested due to selling businesses	-3			-1		**-4**
Additions arising from internal development					46	**46**
Additions			5		12	**17**
Currency translation differences	-3	-3	1			**-5**
Transfers			43	-1	-42	
Amortisation		-17	-32			**-49**
Carrying amount at 31 December	**1,187**	**590**	**98**		**105**	**1,980**
Cost	1,391	685	261		105	**2,442**
Accumulated amortisation and impairments	-204	-95	-163			**-462**
Carrying amount at 31 December	**1,187**	**590**	**98**		**105**	**1,980**

	Goodwill	Trademarks, customer relations and patents	Software	Other intangible assets	Intangible assets under construction	2015 Total
Cost	1,102	270	184	3	83	1,642
Accumulated amortisation and impairments	-204	-60	-120			-384
Carrying amount at 1 January	898	210	64	3	83	1,258
Acquired through acquisition	83	27	1			111
Additions arising from internal development					45	45
Additions			3		6	9
Currency translation differences	5	7				12
Transfers			40		-40	
Transfer to assets held for sale	-2	-2				-4
Amortisation		-15	-25	-1		-41
Impairments			-2		-5	-7
Carrying amount at 31 December	984	227	81	2	89	1,383
Cost	1,188	306	223	3	92	1,812
Accumulated amortisation and impairments	-204	-79	-142	-1	-3	-429
Carrying amount at 31 December	984	227	81	2	89	1,383

The goodwill 'Acquired through acquisition' amounting to EUR 209 million almost entirely relates to the acquisition regarding Engro Foods (2015: EUR 83 million goodwill related to the acquisitions of Friesland Huishan Dairy, Fabrelac and the activities of Anika Group). The other changes in 'Acquired through acquisition' concerns the acquired intangible assets of Engro Foods and FKS (2015: in total EUR 28 million acquired intangible assets of Friesland Huishan Dairy, Anika Group and Fabrelac), see Note 1.

In 2010, FrieslandCampina started a global ICT standardisation programme. During 2016, an amount of EUR 38 million was capitalised (2015: EUR 39 million). The portion that was still under construction by year-end 2016 was recognised in the movements schedule in the category 'Intangible assets under construction'. The amortisation on the ICT standardisation programme in 2016 amounted to EUR 21 million (2015: EUR 14 million).

In 2012 the system went into service in the first group of operating companies and subsequently, the implementation was rolled out to a number of other operating companies. The roll-out to the remaining operating companies will take several years and is expected to be completed in 2019.

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

Goodwill impairment test

FrieslandCampina carries out the goodwill impairment test during the second quarter of each year and at another time if there is a trigger for impairment. Goodwill is monitored and tested at the business group level. The goodwill impairment test calculates the recoverable amount - the value in use - per business group.
The management structure and reporting to the Executive Board have changed as per 1 January 2016. The activities with respect to the consumer products for Asia were split into the business group Consumer Products China and the business group Consumer Products Asia. Due to the management structure changes, the goodwill in Asia was reallocated. Goodwill arose in 2015 due to gaining control over China Huishan Dairy Investments (Hong Kong) Ltd. This goodwill was allocated to business group Consumer Products China, as this recent acquisition relates to activities in China. The remaining goodwill was allocated to the business groups Consumer Products Asia and Consumer Products China respectively based on the relative values.

The goodwill allocated to the cash-generating units, with the goodwill as of 2016 presented on the basis of the changed management structure, is as follows:

	2016	2015
Consumer Products EMEA	564	566
Consumer Products Asia	319	223
Consumer Products China	109	
Cheese, Butter & Milkpowder	33	33
Ingredients	162	162
	1,187	984

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

	%		%		%	
	Growth rate terminal value		Average growth rate gross profit		Pre-tax discount rate	
	2016	2015	**2016**	2015	**2016**	2015
Consumer Products EMEA	2.5	4.0	4	0	10	12
Consumer Products Asia [1]	3.0	3.0	3	6	8	8
Consumer Products China	3.0		16		8	
Cheese, Butter & Milkpowder	1.0	1.5	11	13	8	8
Ingredients	1.0	1.5	10	4	7	7

[1] The goodwill impairment test was carried out in the second quarter of 2016. Therefore the impact of the 51% interest in Engro Foods, acquired in December 2016, is not included in the assumptions above.

The average growth rate of the gross profit for each business group in the long-term plans to 2020 are based on past experience, specific expectations for the near future and market-based growth percentages. The increases were mainly related to the forecasted increase in sales and efficiency improvements. The discount rate for each business group is based on information that can be verified in the market and is before tax.

The values in use of the business groups were determined on the basis of the 2016 budget and the long-term plans until 2020. A compensation for the role the business group Cheese, Butter & Milkpowder plays in processing member milk, and in particular fat, was also taken into account. This compensation of the other business groups serves to cover the loss on processing member dairy farmers' milk in basic dairy products, realised by the business group Cheese, Butter & Milkpowder, as all milk supplied by the member dairy farmers must be accepted. For the period after 2020, a growth rate equal to the forecasted long-term inflation rates was applied, as is best practice in the market, capped at the forecasted inflation with respect to government bonds.

Sensitivity to changes in assumptions

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

9 Biological assets

Due to the acquisition regarding Engro Foods, FrieslandCampina has 2,895 mature dairy cows able to produce milk on the balance sheet as at 31 December 2016 and 2,731 immature cows that are being raised to produce milk in the future.

10 Joint ventures and associates

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

	2016		2015	
	Joint ventures	Associates	Joint ventures	Associates
Carrying amount	88	38	87	39
Share of:				
Profit or loss from continuing operations, net of tax	16	4	10	5
Other comprehensive income	2			
Total comprehensive income	**18**	**4**	10	5

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

The largest joint venture concerns the 50% interest in Betagen Holding Ltd and this interest is accounted for using the equity method. FrieslandCampina's interest in Betagen Holding Ltd. amounts to EUR 66 million (2015: EUR 66 million) and the share in the 2016 profit amounted to EUR 10 million (2015: EUR 5 million).

For a summary of the most important joint ventures and associates see page 140.

11 Other financial assets

	2016	2015
Non-current other financial assets		
Loans issued	19	20
Securities	84	80
Derivatives	57	70
Non-current receivables	5	4
	165	174
Current other financial assets		
Derivatives	31	1
Other	20	4
	51	5

EUR 6 million (2015: EUR 6 million) of the loans issued concerns a loan to the Great Ocean Ingredients Pty. Ltd. joint venture. The remainder concerns loans to third parties. The average interest rate on the loans issued at the end of 2016 was 3.2% (2015: 2.5%). The maturity date of EUR 7 million of the loans issued is after 2021. All the loans issued are still within their terms.

FrieslandCampina holds an interest in China Huishan Dairy Holdings Company Ltd. of 1.1%. These shares are listed on the Hong Kong Stock Exchange and amount on 31 December 2016 EUR 53 million (2015: EUR 50 million). FrieslandCampina also holds a 8.2% interest in Synlait Milk Ltd., a New Zealand dairy company that is listed on the New Zealand Exchange. On 31 December 2016 this interest was valued at EUR 30 million (2015: EUR 29 million). Both interests are included under securities.

An amount of EUR 20 million is recognised as current other financial assets. In addition to the current portion of the loans issued, this mainly concerns funds that are provided to the logistics service provider as collateral by the subsidiary FrieslandCampina WAMCO Nigeria PLC in order to facilitate currency transactions on behalf of FrieslandCampina.

For information regarding derivatives see Note 21. The determination of the fair value of the securities and derivatives is included in Note 27.

12 Inventories

	2016	2015
Raw materials and consumables used	438	398
Finished goods and commodities	1,110	941
Write-down to net realisable value	-21	-32
	1,527	1,307

EUR 116 million (2015: EUR 178 million) of the inventories is valued at net realisable value. The write-down to net realisable value is recognised in cost of goods sold.

No inventories are pledged as collateral for liabilities.

13 Trade and other receivables

	2016	2015
Trade receivables	1,169	1,097
Other receivables	62	59
Provision for doubtful debts	-30	-13
	1,201	1,143
Receivables related to tax (excluding income tax) and social security contributions	131	91
Prepayments	60	60
	1,392	1,294

Provision for doubtful debts		
At 1 January	-13	-19
Charged to the income statement	-21	-4
Released to the income statement	2	4
Trade receivables written off	2	6
At 31 December	**-30**	-13

	2016			2015		
Maturity schedule trade and other receivables	Gross	Write-down	Net	Gross	Write-down	Net
Within payment term	1,088	-4	**1,084**	993	-5	988
Overdue by less than 3 months	112	-2	**110**	130	-2	128
Overdue by 3 - 6 months	10	-4	**6**	21	-1	20
Overdue by more than 6 months	21	-20	**1**	12	-5	7
	1,231	**-30**	**1,201**	1,156	-13	1,143

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

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

In various countries FrieslandCampina has taken out credit insurance to mitigate the credit risk related to trade debtors. At the end of 2016 this insured position amounted to EUR 351 million (2015: EUR 367 million).

14 Cash and cash equivalents

	2016	2015
Deposits	194	203
Other cash and cash equivalents	320	618
	514	821

Cash and cash equivalents amounting to EUR 5 million (2015: EUR 14 million) concerns cash in Greece to which restrictions regarding their use outside of Greece are applicable. Funds of EUR 10 million (2015: EUR 47 million) specifically designated for intercompany supplies in Nigeria are not freely available. These funds are released at the moment the goods are supplied, normally within 2 to 4 weeks.

15 Assets and liabilities held for sale

	2016	2015
Assets held for sale		
At 1 January	20	7
Transfer from property, plant and equipment	1	6
Transfer from intangible assets		4
Transfer from current assets		8
Disposals	-16	-4
Impairments		-1
At 31 December	**5**	20
Liabilities held for sale		
At 1 January	1	
Disposals	-1	
Transfer from deferred tax liabilities		1
At 31 December		1

Assets held for sale at the end of 2016 comprise property, plant and equipment amounting to EUR 5 million (2015: EUR 8 million).

The disposals mainly concern the sale of commercial 'vending'-activities at the beginning of 2016. At the end of 2015, the assets and liabilities related to this transaction were classified as held for sale. In addition, disposals relate to the sale of land, buildings and equipment in the Netherlands.

The total result on the sale of assets held for sale amounts to EUR 31 million in 2016. This result is recognised in other operating income.

16 Equity

Issued capital

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

Share premium reserve

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

Member bonds

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

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

From the profit over the 2016 financial year, EUR 44 million (2015: EUR 42 million) is attributed to the holders of the member bonds as an interest payment. In addition, in 2016 EUR 135 million (2015: EUR 129 million) is attributed to member dairy farmers through the issue of member bonds-fixed as part of the compensation for milk supplied during 2016.

Cooperative loan
The EUR 290 million perpetual subordinated loan advanced to Royal FrieslandCampina by Zuivelcoöperatie FrieslandCampina U.A. is continuous and has no maturity date. The interest rate applicable for the perpetual subordinated loan is the six months Euribor as at 1 June and 1 December of the year in question plus 3.25%. The loan from the Cooperative is subordinated by the claims from all other existing and future creditors to the extent that these are not subordinated. Interest payments may be deferred, provided that Royal FrieslandCampina N.V. has not determined or distributed any performance premium in the 12 months prior to the annual interest payment date. Deferred interest becomes payable on the date on which a performance premium is determined or next distributed.

EUR 9 million of the profit from the 2016 financial year (2015: EUR 10 million) is attributed to the provider of the Cooperative loan as an interest payment.

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

The fair value reserve concerns the changes to the fair value of financial assets held for sale.

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

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

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

Reserve policy
The reserve policy 2014-2016 stipulates that 45% of the Company's profit, on the basis of the guaranteed price and after deduction of the compensation paid on member bonds and the profit attributable to non-controlling interests, is added to the Company's equity. As a component of the payment for milk supplied in 2016 35% of the profit may be paid out in cash to the member dairy farmers as performance premium and 20% will be paid out to the member dairy farmers in the form of member bonds-fixed. The Executive Board may, in the event of impairment greater than EUR 100 million, decide to add the entire amount to the Company's equity via the profit appropriation. The reserve policy is laid down in the milk price regulation and is revised every three years. After the General Meeting of Shareholders' adoption of the financial statements, the issue of member bonds is finalised. The financial statements are already based on issue of member bonds. The cash payment of the performance premium has also been included in the financial statements and accounted for in cost of goods sold.

Based on the revision of the reserve policy, it has been determined that 55% is added to the company's equity from 2017 onwards, 35% can be paid out in cash to the member dairy farmers as a performance premium and 10% will be distributed to the member dairy farmers in the form of member bonds-fixed or in certain cases partly as member bonds-free.

Non-controlling interests

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

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

							2016
	FrieslandCampina WAMCO Nigeria PLC	Engro Foods Ltd.[1]	China Huishan Dairy Investments (Hong Kong) Ltd.	DMV-Fonterra Excipients GmbH & Co. KG[2]	Dutch Lady Milk Industries Berhad	Other	**Total**
Non-controlling interest percentage	32.19%	49.00%	50.00%	50.00%	49.04%		
Non-current assets	55	542	103	26	22		
Current assets	162	98	22	70	89		
Non-current liabilities	-6	-145	-34	-8	-2		
Current liabilities	-162	-51	-53	-23	-74		
Net assets	**49**	**444**	**38**	**65**	**35**		
Carrying amount of non-controlling interest	16	218	19	125	17	80	**475**
Revenue	432	9	28		229		
Profit for the year	50	-1	-19	53	32		
Other comprehensive income	-24		-2				
Total comprehensive income	**26**	**-1**	**-21**	**53**	**32**		
Profit allocated to non-controlling interest	16		-10	28	16	30	**80**
Other comprehensive income allocated to non-controlling interest	-7		-1				**-8**
Dividends paid out to non-controlling interest	14			31	15	17	**77**
Net cash from/used in operating activities	143	-7	-14		46		
Net cash used in investing activities	-26		-11		-4		
Net cash from/used in financing activities	-108		26		-30		
Net cash flows	**9**	**-7**	**1**		**12**		

[1] On 19 December 2016, FrieslandCampina acquired a 51% interest in Engro Foods Ltd., see Note 1. The results and cash flows recorded in the above-referenced table relate to the period following the acquisition of the interest.

[2] As the 2016 results of DMV-Fonterra Excipients GmbH & Co. KG are not yet publicly available the 2015 figures have been disclosed. The revenue and cash flows of this entity are not disclosed.

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

						2015
	FrieslandCampina WAMCO Nigeria PLC	China Huishan Dairy Investments (Hong Kong) Ltd.	DMV-Fonterra Excipients GmbH & Co. KG [1]	Dutch Lady Milk Industries Berhad	Other	**Total**
Non-controlling interest percentage	32.19%	50.00%	50.00%	49.04%		
Non-current assets	84	97	26	20		
Current assets	233	30	70	66		
Non-current liabilities	-25	-36	-8	-1		
Current liabilities	-225	-32	-23	-52		
Net assets	67	59	65	33		
Carrying amount of non-controlling interest	22	30	125	16	68	261
Revenue	550	40		231		
Profit for the year	59	-10	53	33		
Other comprehensive income	1	-1		-4		
Total comprehensive income	60	-11	53	29		
Profit allocated to non-controlling interest	22	-5	28	16	12	73
Other comprehensive income allocated to non-controlling interest		-1		-2		-3
Dividend paid out to non-controlling interest	12		31	16	15	74
Net cash from operating activities	37	-11		45		
Net cash used in investing activities	-12	-6		-5		
Net cash from/used in financing activities	47	11		-31		
Net cash flows	72	-6		9		

[1] The revenue and cash flows of DMV-Fonterra Excipients GmbH & Co. KG are not publicly available.

17 Employee benefits

Obligations under long-term employee benefits	2016	2015
Net pension liability	512	501
Other long-term employee benefits	21	21
	533	522

Other long-term employee benefits

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

Net pension liability

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

As of 1 January 2015 all Dutch employees who are covered by the Collective Labour Agreement for the dairy sector will accrue their pension benefits in a defined contribution plan as specified below.

Annual pensionable salary	Pension plan for Dutch employees covered by the Collective Labour Agreement for the dairy sector as from 1 January 2015
Up to EUR 62,886	Collective defined contribution plan based on a fixed contribution and executed by the industry wide pension fund for the dairy sector ('Bedrijfstakpensioenfonds voor de Zuivel')
Between EUR 62,886 and EUR 101,519	Individual defined contribution plan administered by a premium pension institution
Above EUR 101,519	A net pension savings plan administered by the same premium pension institution

In connection with the pension situation since 1 January 2015 the accrual of pension benefits in the pension plan for former Campina employees, administered in a company pension fund, and the pension plan for former Friesland Foods employees and FrieslandCampina employees hired in the period between 1 January 2009 up to and including 31 December 2014, administered by an insurance company in a segregated investment fund, has ceased. Relating to the plan for former Campina employees FrieslandCampina currently only has an obligation to settle a number of smaller guarantee contracts pursuant to the administration agreement. Upon reaching agreement on this issue with the pension fund, FrieslandCampina will have 'settlement of the full plan'. At that moment the present value of the gross obligation pursuant to the pension benefits ('gross pension liability') and the fair value of the plan assets (at end of 2016 both: EUR 1,448 million) will be released from the net pension liability in the statement of financial position because FrieslandCampina will no longer be exposed to risks. This will not affect the income statement because the current, and at the moment of settlement expected net pension liability (the gross pension liability minus the fair value of plan assets) amounts to nil.

The pension plan for pension benefits accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees remains a defined benefit plan. At the end of 2016 this plan accounted for 54% of the total gross pension liability (2015: 50%) and is disclosed in more detail below.

	Pension plan entitlements accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees
Plan characteristics	From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants will be annually increased during the term of the five-year collective agreement (until 2020) by a fixed rate of 1.75%, for as long as the employment continues. Conditional indexation is applicable for non-active participants.
Pension administrator	An insurance company, in a segregated investment fund via a guarantee contract.
Funding agreements	Each year FrieslandCampina pays in total a premium, calculated based on market value, for the indexation of the pensions of active participants. In the four years from 2015 to 2018 FrieslandCampina will pay a fixed amount of EUR 16 million per annum into the segregated fund for the indexation of the pensions of non-active participants. After this four year period, FrieslandCampina will not be liable for any further contributions. Finally, in respect of the segregated investment fund, if the coverage ratio remains lower than the contractual 110% for longer than 18 consecutive months from the end of the calendar year, FrieslandCampina will make good the shortfall. At the end of 2016 the coverage ratio was 121.7% determined on the basis of the principles specified in the insurance contract (2015: 118.1%).
Supervision and governance	The insurer is responsible for holding sufficient resources to pay out all accrued benefits. This is supervised by DNB (Dutch National Bank). The investment policy for the insurance contract is determined by the insurer in consultation with FrieslandCampina.
Participants	Approximately 58% of the participants are active, 27% are former employees and 15% are pensioners. The average duration of the pension obligations is around 22 years.
Most significant risks	The most significant risk is that the coverage ratio at the end of the calendar year drops below 110%. If this situation continues for more than 18 consecutive months, FrieslandCampina will undertake to pay a supplementary premium in order to ensure the funding ratio is restored to at least 110%. As the pension obligations in the contract are calculated on the basis of a fixed interest rate, the movements in the value of plan assets have a significant impact on the coverage ratio.

Pension plan entitlements accrued until 2015 by former Campina employees

The pension plan for pension benefits accrued until 2015 by former Campina employees also concerns a defined benefit plan. At the end of 2016 this plan accounted for 38% (2015: 42%) of the total gross pension liability. During the five year period of the Collective Labour Agreement (until 2020) all the pension benefits accrued by active participants up to 2015 will be granted a fixed 1.75% indexation if and for as long as they remain employed by FrieslandCampina. This 1.75% indexation, which has been insured with an insurance company in a guarantee contract without profit sharing, will be increased by a fixed percentage to cover post-retirement indexation.

Other plans for Dutch employees covered by the Collective Labour Agreement for the dairy sector
In addition to the plan disclosed above, the Dutch employees who were employed at the end of 2005 are also entitled to a supplementary lump-sum contribution, determined on an individual basis, upon retirement from active employment. This conditional lump-sum amount will be awarded in 2021, or on retirement if this is earlier. On the relevant date FrieslandCampina will purchase pension benefits at the rates applicable on that date for these lump-sum amounts. At the end of 2016 this plan accounted for 2% of the total gross pension liability (2015: 3%).

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

Foreign employees
In respect of FrieslandCampina's foreign activities both defined contribution and defined benefit plans are applicable. The most important defined benefit pension plans are the plans in Germany. These are primarily unfunded pension plans based on salary, length of service and fixed amounts that account for 3% (2015: 3%) of FrieslandCampina's total gross pension liability. The accrued benefits are increased each year by a maximum of the price inflation. This is a conditional entitlement depending on the financial position of the relevant company.

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

Assumptions [1]	**2016**	2015
	%	%
Discount rate	1.7 - 1.9	2.2 - 2.4
Wage inflation	n/a	n/a
Price inflation / increased offset	2.0	2.0
Indexation		
- active employees	1.8	1.8
- former and retired employees	1.8	1.4
Life expectancy	in years	in years
- man / woman age 65 at end of year	20.1 / 23.3	20.0 / 23.0
- man / woman age 65 in 20 years' time	22.7 / 25.7	22.6 / 25.3

[1] The percentages shown concern the Dutch pension plans mentioned above, which represent 92% (2015: 91%) of the gross pension liability and 98% (2015: 98%) of the fair value of the plan assets respectively.

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

Movement in net pension liability

	Gross pension liability		Fair value of plan assets		Net pension liability	
	2016	2015	**2016**	2015	**2016**	2015
At 1 January	**3,431**	3,719	**-2,930**	-3,085	**501**	634
Included in the income statement						
Operating expenses:						
Current service costs	13	13			13	13
Pension plan amendment	-3				-3	
Interest expense or income	77	69	-66	-57	11	12
Administration costs			1	1	1	1
Total	**87**	82	**-65**	-56	**22**	26
Recognised in equity:						
Remeasurement gain or loss due to:						
Return on plan assets, excluding the interest income and adjusted guaranteed value			-548	258	-548	258
Changes in financial assumptions	575	-322			575	-322
Changes in demographic assumptions	4	-6			4	-6
Experience adjustments	14	40			14	40
Total remeasurement gain or loss	**593**	-288	**-548**	258	**45**	-30
Currency translation differences	-2	2	1	-1	-1	1
Total	**591**	-286	**-547**	257	**44**	-29
Other						
Contributions paid by the employer to the plan			-56	-130	-56	-130
Benefits paid	-104	-106	104	106		
Acquired through acquisition	5		-4		1	
Reclassification		22		-22		
Total	**-99**	-84	**44**	-46	**-55**	-130
At 31 December	**4,010**	3,431	**-3,498**	-2,930	**512**	501
Classification						
Non-current assets					6	6
Non-current liabilities					518	507

At the end of 2016, EUR 248 million of the EUR 4,010 million gross pension liability had not yet been funded (2015: EUR 242 million of the EUR 3,431 million not yet funded). The contributions to the plans of EUR 56 million are the premiums paid by FrieslandCampina in 2016, of which EUR 19 million relates to 2015.

Income and expenses under long-term employee benefits recognised in the income statement	**2016**	2015
Current service costs	-13	-13
Pension scheme adjustment	3	
Interest expense or income	-11	-12
Administration costs	-1	-1
Defined benefit cost recognised in the income statement	**-22**	-26
Benefit cost for defined contribution plans	-83	-80
Employees' share in pension costs	9	8
Benefit cost recognised in the income statement	**-96**	-98
Expenses under other long-term employee benefits	-2	
Expenses under long-term employee benefits recognised in the income statement	**-98**	-98

FrieslandCampina expects to contribute EUR 66 million towards its defined benefit plans in 2017 of which EUR 23 million concerns 2016. Of the remaining EUR 43 million, EUR 25 million is for the plans that provide Dutch employees indexation on the benefits accrued up to 2015. In 2017 FrieslandCampina expects to contribute EUR 84 million towards the defined contribution plans, primarily related to the new collective and individual contribution plans that apply for Dutch employees.

Disaggregation of the fair value of plan assets into asset classes		**2016**		2015
	%	%	%	%
	Company pension fund	Insurance contract	Company pension fund	Insurance contract
Shares				
- North America	9		8	
- Europe	4		5	
- Japan	2		2	
- Emerging Markets	2		3	
- Other	1		1	
Fixed income securities				
- Investment grade (at least BBB rating)	20		26	
- Non-investment grade (BB rating or lower)	4		2	
Guaranteed value of insurance contract		56		51
Total	**42**	**56**	47	51

At the end of 2016 the plan assets in the company pension fund and the guaranteed value of the insurance contract amounted to 42% and 56% of the total plan assets respectively (2015: 47% and 51%). Of the plan assets in the company pension fund EUR 1 million (2015: EUR 1 million) does not have a direct or indirect quoted market price. In addition, approximately EUR 24 million is invested in Zuivelcoöperatie FrieslandCampina U.A. subordinated bonds. Of the interest rate risk relating to the company pension fund 60% is hedged. Of the hedged amount 41% is hedged by means of government bonds and 59% by means of interest rate swaps. The collateral of the swap portfolio is invested in a widely-spread cash fund with an AAA rating. The currency risk related to the main part of the foreign debt and equity instruments is hedged for 70% to 100%. The value of the plan assets in the insurance contract is based on its guaranteed value. The profit sharing in this contract is, however, determined based on the investments in the segregated investment fund. Approximately 59% of these investments are fixed-income securities, 37% are shares and 4% are other investments. Because the insurer determines the pension obligation at a fixed interest rate, the interest rate hedge is limited. The remaining plan assets compromising 2% of the total amount (2015: 2%) are mainly related to foreign pension plans and consist of insurance contracts and various investments.

Sensitivity analysis

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

Effect on the gross pension liability at 31 December	**2016**		2015	
	Increase	Decrease	Increase	Decrease
Change of 0.25% to discount rate	-175	187	-139	149
Change of 0.25% to indexation of former participants	149	-141	116	-110
Change of 1 year to life expectancy	160	-159	125	-125

As a result of cross effects, changes in multiple assumptions could have additional implications for the individual effects. In addition, the impact on the net pension liability is usually less because the effect shown in the sensitivity analyses is partly offset by a change in the guaranteed value of the insurance contract or a change in the indexation rate assumption for the company pension fund.

18 Deferred tax assets and liabilities

						2016
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	**Total**
At 1 January	-64	56	90	92	49	**223**
Arising from acquisition	-24	-113		-3		**-140**
Recognised through the income statement	6	-7	-13	16	-21	**-19**
Recognised in equity			10	3	12	**25**
Currency translation differences	5	1	-1			**5**
Other	6	-1	-2			**3**
At 31 December	**-71**	**-64**	**84**	**108**	**40**	**97**

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

	Assets	Liabilities	**Net**
Property, plant and equipment	11	82	**-71**
Intangible assets	109	173	**-64**
Employee benefits	89	5	**84**
Inventories, trade receivables, derivatives, accounts payable and provisions	113	5	**108**
Unused tax losses and facilities	40		**40**
Netting	-18	-18	
Net deferred tax asset	**344**	**247**	**97**

						2015
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	Total
At 1 January	-63	50	131	88	50	256
Arising from acquisition		-1			1	
Recognised through the income statement	-2	8	-33	5	-7	-29
Recognised in equity			-7	-5	5	-7
Currency translation differences	-1	-2		4		1
Other	2	1	-1			2
At 31 December	-64	56	90	92	49	223

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

	Assets	Liabilities	Net
Property, plant and equipment	3	67	-64
Intangible assets	120	64	56
Employee benefits	93	3	90
Inventories, trade receivables, derivatives, accounts payable and provisions	100	8	92
Unused tax losses and facilities	49		49
Netting	-24	-24	
Net deferred tax asset	341	118	223

At the end of the financial year the unused tax losses and facilities amounted to EUR 40 million (2015: EUR 49 million) of which EUR 21 million (2015: EUR 17 million) concerned unused tax losses and EUR 19 million (2015: EUR 32 million) concerned unused facilities. Based on long-term planning, the expectation is that it will be possible to offset these against future profits.

Deferred tax assets are recognised if it is probable that there will be future taxable profits within the entities against which the losses can be utilised.

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

	2016	2015
Unrecognised tax losses	40	51
Unrecognised facilities	27	1
	67	52

At the end of the financial year the nominal value of the unused tax losses amounts to EUR 282 million (2015: EUR 226 million). Of these unrecognised tax losses EUR 33 million expire between 5 and 10 years (2015: EUR 32 million). The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules.

19 Provisions

			2016			2015
	Restructuring	Other provisions	**Total**	Restructuring	Other provisions	Total
At 1 January	48	18	**66**	29	12	41
Additions charged to the income statement	11	14	**25**	42	17	59
Released to the income statement	-15	-8	**-23**	-5	-3	-8
Utilisations	-16	-2	**-18**	-18	-8	-26
At 31 December	**28**	**22**	**50**	48	18	66
Non-current provisions	5	9	**14**	16	7	23
Current provisions	23	13	**36**	32	11	43
	28	**22**	**50**	48	18	66

Restructuring provisions

In 2016, a reorganisation was announced for the Lochem site in the Netherlands and the Heilbronn site in Germany. Provisions for these restructurings were formed during 2016 and concerned primarily redundancy payments and related costs. The loss of jobs is the result of efficiency measures, whereby in several cases the facility will be closed after the activities have been relocated to other facilities. The aim of these restructurings is to make better use of production capacity and to reduce production costs.

The restructuring provisions at the end of 2015 are primarily related to the World Class Operations Management (WCOM) Reloaded Programme, a long-term programme initiated in 2015 that focuses on process improvement, cost reduction and further professionalisation. As a consequence of the WCOM Programme, jobs will gradually be reduced at production facilities in the Netherlands.

The amounts released to the income statement totalling EUR 15 million are primarily related to the release of the provisions for the sites in Beilen, Limmen and Den Bosch, because more employees can be redeployed than originally expected at the end of 2015. The utilisations in 2016 are primarily related to the provisions for the sites in Aalter (Belgium), Gütersloh (Germany), and Lochem and Leeuwarden (the Netherlands).

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

Other provisions

These provisions relate primarily to received claims and other provisions and are recognised at nominal value as their present value is not materially different. Other provisions include an amount of EUR 4 million (2015: EUR 3 million) for onerous contracts and an amount of EUR 12 million (2015: EUR 9 million) related to claims received.

20 Non-current interest-bearing borrowings

	2016	2015
Borrowings from credit institutions	282	297
Borrowings from institutional investors	536	666
Borrowings from holders of green bonds	299	
Financial lease liabilities	2	8
Other interest-bearing borrowings	33	44
	1,152	1,015

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

					2016		2015
Loan	Currency	Year of maturity	Nominal interest rate	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Green bonds (fixed interest)	EUR	2021-2026	1.4	300	299		
Syndicate (variable interest)	EUR	2021	0.7	250	247	300	296
European Investment Bank (fixed interest)	EUR	2023-2026	0.5	30	30		
Private Placement (fixed interest)	USD/EUR	2017	4.4			129	129
Private Placement (fixed interest)	USD	2020	5.7	126	126	122	122
Private Placement (fixed interest)	USD	2022	4.0	76	76	74	74
Private Placement (fixed interest)	USD	2024	4.2	139	139	134	134
Private Placement (fixed interest)	USD	2017	4.0			19	19
Private Placement (fixed interest)	USD	2018-2027	4.0	195	195	188	188
Fonterra (variable interest)	EUR/NZD	2017	2.1			2	2
Fonterra (variable interest)	EUR/NZD	2018-2025	2.1	14	14	20	20
Huishan (variable interest)	CNY	2018	4.4	17	17	18	18
Other				9	9	13	13
				1,156	**1,152**	1,019	1,015

Borrowings from holders of green bonds

In 2016, FrieslandCampina issued green bonds (Green Schuldschein) amounting to EUR 300 million, consisting of four tranches at fixed interest rates. This loan will be used to finance/refinance projects of a sustainable character. These projects are primarily related to sustainable investments in plant and equipment in production facilities. The terms vary between 5 and 10 years. These bonds are recognised in the non-current interest-bearing borrowings; issue costs are capitalised and amortised over the duration of the bonds.

Borrowings from credit institutions

In 2014 FrieslandCampina agreed a new credit facility with a syndicate of financial institutions of EUR 1.5 billion with a term of 5 years. In 2015, the term was extended to April 2020. In 2016, this credit facility was (under the same terms) extended by another year to April 2021. On 31 December 2016 EUR 250 million of the credit facility is utilised (2015: EUR 650 million), and is entirely classified as non-current (2015: EUR 300 million).

In June 2016, FrieslandCampina agreed on a loan facility capped at EUR 150 million with the European Investment Bank (EIB). This loan will be used for research into and development of new products. The loan is subject to a 7 or 10-year term from the date FrieslandCampina starts making use of this facility. The interest rate will be determined at that time and the capitalised issue costs will be amortised over the duration of the loan. An amount of EUR 30 million is drawn from this loan on 31 December 2016.

In November 2016, FrieslandCampina agreed on a loan from IFC of a maximum of USD 100 million as part of the acquisition of a 51% interest in Engro Foods. The term of this loan is 10 years and the loan can be drawn until mid-June 2017. As at 31 December 2016, no amount has been drawn from this loan.

Borrowings from institutional investors (private placements)

FrieslandCampina has taken out privately placed loans with institutional investors in the United States to a total of USD 696 million (2015: USD 696 million) and a loan with an European investor amounting to EUR 25 million (2015: EUR 25 million).

Cross-currency swaps have been used to convert the USD repayment and interest liabilities related to these borrowings into EUR liabilities at fixed interest rates. The cross-currency swaps were entered into to hedge the cash flows, with application of cash flow hedge accounting. The cross-currency swaps are recognised at fair value. The portion of the gains and losses made on these hedge instruments regarded as effective hedges is recognised directly in equity. The borrowings of USD 696 million (2015: USD 696 million) have been fixed by these swaps at EUR 532 million (2015: EUR 532 million).

On 31 December 2016 the total amount of borrowings from institutional investors (private placements) classified as non-current amounts to EUR 536 million (2015: fully non-current) and an amount of EUR 150 million is recognised as the current portion of non-current interest-bearing borrowings.

Financial lease liabilities

	2016		2015	
	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
Less than one year	6	6	3	3
Between 1 and 5 years	3	2	7	7
More than five years			1	1
	9	**8**	11	11

The lease installments payable includes EUR 5 million (present value EUR 5 million) for the agreement with a third party for ripening, storing and packaging cheese (2015: EUR 6 million). EUR 6 million (2015: EUR 3 million) of the present value of the minimum payments is current and recognised in current interest-bearing borrowings.

No collaterals have been pledged for current and non-current borrowings.

21 Other financial liabilities

	2016	2015
Non-current other financial liabilities		
Derivatives	1	5
Contingent considerations	16	14
Put option liabilities	81	1
	98	20
Current other financial liabilities		
Derivatives	8	4
Contingent considerations		3
Put option liabilities		5
	8	12

The non-current contingent consideration relates to the acquisition of distribution-related activities of Anika Group in 2015. The long-term put option liability at year-end 2016 primarily relates to the acquisition of a 51% interest in Engro Foods.

Further information regarding contingent considerations and put option liabilities is included in Note 27.

Derivatives

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

Hedging activities				2016
	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps	2017	23		107
Cross currency swaps	After 2017	56		555
Interest rate swaps	2019 and 2020		1	250
Total cash flow hedges subject to hedge accounting		**79**	**1**	
Cross currency swaps	2017		4	27
Forward exchange contracts	2017	2		229
Forward exchange contracts	2017		4	251
Commodity swaps	2017 and 2018	7		38
Derivatives not subject to hedge accounting		**9**	**8**	
Total derivatives		**88**	**9**	
Classified as current		31	8	
Classified as non-current		57	1	

Hedging activities				2015
	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps	After 2016	69		641
Interest rate swaps	2019	1	2	100
Total cash flow hedges subject to hedge accounting		70	2	
Cross currency swaps	2017		3	26
Forward exchange contracts	2016	1		107
Forward exchange contracts	2016		4	240
Derivatives not subject to hedge accounting		1	7	
Total derivatives		71	9	
Classified as current		1	4	
Classified as non-current		70	5	

Cash flow hedges
To hedge interest rate and currency risks on the borrowings of USD 696 million (2015: USD 696 million), cross-currency interest rate swaps have been contracted, as a result of which the USD repayment and interest liabilities to institutional investors have been converted into EUR liabilities.

The interest rate swaps are entered into to convert the floating-interest liabilities on the interest-bearing borrowings into fixed-interest liabilities. In 2016, new interest rate swaps are entered into, as a result of which a total of EUR 250 million of floating-interest liabilities are converted to fixed-interest liabilities (2015: EUR 100 million). For effective hedging purposes a floor of 0%, as for the hedged floating-interest liabilities, has been applied to the interest rate swaps.

The hedges to which hedge accounting is applied meet the documentation requirements for hedge accounting under IAS 39 and are tested for effectiveness prior to and per the reporting date. These hedges proved to be effective as a result of which, at the end of 2016 EUR -33 million (2015: -25 million) was recognised in equity as cash flow hedge reserve. Of this amount, EUR -32 million (2015: EUR -24 million) relates to the cross currency swaps and EUR -1 million (2015: EUR -1 million) to the interest rate swaps.

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

To hedge part of the price risk on future expenses for road and sea transportation from the Netherlands-Belgium-Germany area derivatives are entered into to fixate the floating price developments of diesel- and bunkeroil for the years 2017 and 2018.
Also, derivatives were entered into to hedge part of the price risk on future buy and sell positions in milk powder and butter. For a further explanation, see Note 27.

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

22 Current interest-bearing borrowings

	2016	2015
Current portion of non-current interest-bearing borrowings	166	357
Current loans	206	318
Borrowings from member dairy farmers	26	35
Bank overdrafts	160	103
	558	813

The current portion of the non-current interest-bearing borrowings includes an amount of EUR 150 million (2015: none) as the current portion of a private loan (Private Placements) taken out in the United States of America from institutional investors. The current portion of the non-current interest-bearing borrowings at year-end 2015 includes an amount of EUR 349 million in relation to a withdrawal from the credit facility of a current nature.

At the end of 2016 an amount of EUR 77 million (2015: EUR 115 million) for Commercial Papers, as well as an amount of EUR 80 million drawn from uncommitted facilities (2015: EUR 100 million) is recognised under current loans.

The borrowings from member dairy farmers amounting to EUR 25 million (2015: EUR 34 million) concern three-year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers with the payment of a 0.75% interest penalty.

The average interest rate on current interest-bearing borrowings at the end of 2016 is 2.1% (2015: 2.6%).

23 Trade and other payables

	2016	2015
Owed to member dairy farmers	582	476
Trade payables	1,575	1,538
Payables related to tax (excluding income tax) and social security contributions	68	47
Payables to Zuivelcoöperatie FrieslandCampina U.A.	14	40
Other payables	669	503
	2,908	2,604

24 Commitments and contingencies

				2016
	2017	2018 - 2021	After 2021	Total
Operational lease commitments	52	100	40	**192**
Purchase commitments for fixed assets	130			**130**
Other commitments	47	18	1	**66**
	229	**118**	**41**	**388**

				2015
	2016	2017 - 2020	After 2020	Total
Operational lease commitments	45	97	48	190
Purchase commitments for fixed assets	143			143
Other commitments	33	21		54
	221	118	48	387

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

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

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

The milk is to be made available through an independent foundation. The price of the milk is the guaranteed milk price (paid by FrieslandCampina for milk delivered by its member dairy farmers) applicable in the month of delivery.

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

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

Other liabilities
Participation in Ondernemend Oranje Kapitaal stimulation fund
FrieslandCampina participates in the Ondernemend Oranje Kapitaal Coöperatief U.A. stimulation fund. The objective of this fund is investment in the risk-bearing capital of small and medium-sized Dutch businesses, whereby the investor can earn a defined return.

A number of large Dutch companies have committed to participation in this fund. FrieslandCampina has committed an amount of EUR 5 million of which EUR 1 million has already been contributed.

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

Acquisitions, partnering & divestments
FrieslandCampina is involved in mergers and acquisitions ('M&A' transactions) whereby shares or assets are acquired or divested, or whereby joint ventures are entered into. Such transactions may result in different tax risks and uncertain tax positions. Examples are the transfer of historical tax liabilities to FrieslandCampina upon an acquisition, non-deductibility of acquisition related costs and tax risks arising from the integration of the acquired activities. Within FrieslandCampina, M&A transactions are managed by M&A teams comprising representatives from all the relevant functional disciplines, including tax specialists. Uncertainties regarding the tax position resulting from M&A transactions are, therefore, investigated and risks are mitigated if required and to the extent possible.

Contingent liabilities

Bank guarantees

As of 31 December 2016 FrieslandCampina has provided bank guarantees to third parties amounting to a total of EUR 20 million (2015: EUR 16 million).

Legal Claims

Various claims were submitted to Royal FrieslandCampina N.V and/or its subsidiaries relating to the Company's ordinary operations. A provision is made for claims for which payment is considered probable and for which a reliable estimate can be made (see Note 19). FrieslandCampina does not expect the other claims to result in liabilities that have a material impact on its financial position.

25 Transactions with related parties

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

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

Zuivelcoöperatie FrieslandCampina U.A.

Zuivelcoöperatie FrieslandCampina U.A., the shareholder of the Company, and FrieslandCampina Nederland B.V., a subsidiary of the Company, have agreed that the latter will purchase the milk supplied by the Cooperative's members. In 2016 this was 10.8 billion kilograms (2015: 10.1 billion kilograms). The price to be paid for this milk is based on the weighted average milk price in Germany, the Netherlands, Denmark and Belgium, which represents 54 billion kilograms of milk in total.

The reserve policy agreed for the period 2014-2016 specifies that 45% of the Company's profit, based on the guaranteed price and after deduction of the compensation paid on member bonds and the profit attributable to non-controlling interests, be added to the Company's equity. As a component of the payment for milk supplied in 2016, 35% of the profit will be paid out to the member dairy farmers in cash as a performance premium and 20% will be paid out to the member dairy farmers in the form of fixed member bonds. In September 2016 an interim amount based on the Company's results for the first half of the year and the quantity of milk supplied was paid out. The interim pay-out amounts 75% of the pro forma performance premium for the value of the quantity of milk supplied during the first half of the year. The final settlement will take place in April 2017 based on the Company's results for the financial year and the total quantity of milk supplied.

As disclosed in detail in Note 16, to finance the activities of Royal FrieslandCampina N.V. Zuivelcoöperatie FrieslandCampina U.A. has provided a perpetual subordinated loan of EUR 290 million at arm's length.

The relations are specified in the tables below:

	2016	2015
Interest on the Cooperative loan	9	10
Interest on member bonds	6	8
Other income	7	6
Cooperative loan	296	296
Member bonds	190	218
Liabilities	14	40

Joint ventures and associates

FrieslandCampina regularly purchases and sells goods from and/or to joint ventures and associates in which FrieslandCampina has no control. The conditions under which these transactions take place are the same as for transactions with third parties. The relations are specified in the tables below:

Joint ventures	2016	2015
Purchase of raw materials, consumables used and commodities	22	17
Sales of raw materials, consumables used and commodities	3	2
Receivables from joint ventures	8	10
Payables to joint ventures	2	2
Associates		
Purchase of raw materials, consumables used and commodities	36	43
Sales of raw materials, consumables used and commodities	62	69
Receivables from associates	10	6
Payables to associates	3	1

Member dairy farmers

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

	2016	2015
Purchase of raw materials	3,544	3,514
Interest on member bonds	38	34
Member bonds	1,374	1,210
Borrowings from member dairy farmers	608	511

Supervisory Board and Executive Board

The members of the Supervisory Board who are also a member of the Cooperative's Board enter into transactions with FrieslandCampina in their capacity as dairy farmers, including milk supply. This results in a liability as at 31 December pursuant to milk supply allowances. The Supervisory Board members are also holders of member bonds. The table below sets out the transactions of the member dairy farmers who were a Supervisory Board member during 2016 and the balance sheet positions with the members who were a Supervisory Board member as at 31 December 2016:

	2016	2015
Purchase of raw materials	3	3
Member bonds	2	1

No transactions took place between FrieslandCampina and the Executive Board other than remuneration. See Note 26.

26 Remuneration of the Supervisory Board and the Executive Board

	2016	2015
Supervisory Board		
Short-term remuneration	1.1	1.1
	1.1	1.1
Executive Board		
Short-term remuneration	5.3	5.0
Long-term remuneration	1.7	1.0
Termination benefits [1]	1.7	0.3
Pension plans	0.6	0.6
	9.3	6.9

[1] The termination benefits become payable in 2017 and includes a provision of EUR 1.0 million amongst other for specific wage tax (art. 32bb Dutch Wage Tax Act 1964).

27 Financial risk management and financial instruments

Capital management

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

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

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

Active risk management

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

FrieslandCampina pursues an active risk management policy. Scenario planning and measures to address any problems form part of this. As such, the risk-mitigating measures in Greece continue to be in force for the time being. On the basis of a continuous business process of monitoring and risk analyses, the business plans of all FrieslandCampina operating companies where necessary are adjusted and maintained on the basis of a focused package of risk-mitigating measures.

Financial risk management

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

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

FrieslandCampina also enters into derivative transactions, primarily forward exchange contracts and interest rate swaps, in order to manage the currency risks and interest rate risks arising from FrieslandCampina's operations and the financing of its operations. Commodity futures were also entered into to control the price risks of future buy and sell positions of milk powder and butter, and commodity swaps for changes in the diesel and bunker oil prices for road and sea transport ensuing from FrieslandCampina's activities in the Netherlands, Belgium and Germany. FrieslandCampina's policy is, and was throughout the year under review, that no trading in financial instruments takes place for speculative purposes. The main risks arising from FrieslandCampina's financial instruments are currency risks, interest rate risks, share price risk, liquidity risks and credit risks.

Currency risks

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

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

Exposure to currency risk

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

					2016					2015
	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	SGD/HKD	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	SGD/HKD
Receivables	276	59	1		94	218	61	1	4	81
Cash and cash equivalents	19		5	6		32	-3	21	6	
Liabilities	144	14	72	23		127		23	42	
Net statement of financial position	**151**	**45**	**-66**	**-17**	**94**	123	58	-1	-32	81
Forward exchange contracts	207	76	-11		37	56	52		-17	65
Net exposure 31 December	**-56**	**-31**	**-55**	**-17**	**57**	67	6	-1	-15	16
Sensitivity analysis										
Impact on profit before tax	-3	-2	-3	-1	3	3			-1	1

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

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

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

Interest rate risk

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match the effective interest in borrowings to the intended interest rate risk profile. The treasury policy specifies that the percentage characterised by a fixed interest rate, or that is fixed by means of a hedge, varies with a bandwidth of 40%-80% with a minimum time horizon of at least three full calendar years. The percentage which is characterised by a fixed interest percentage or is fixed by means of a hedge is at 31 December 2016 74% (2015: 42%). The overview below shows the situation at the end of the year:

	2016		2015	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
Interest on borrowings				
Fixed rate	1,016	1,266	666	766
Variable rate	694	444	1,162	1,062
	1,710	**1,710**	1,828	1,828

FrieslandCampina carried out a sensitivity analysis based on the influence of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicates that, if interest had risen or fallen by 0.5%, the cumulative interest expense for the current year would have been less than EUR 3 million higher or lower.

Share price risk

As FrieslandCampina has an interest in Synlait Milk Ltd. (New Zealand) of which the shares are listed on the New Zealand Exchange, as well as an interest in China Huishan Dairy Holdings Company Ltd. of which the shares are listed on the Hong Kong Stock Exchange, these interests result in share price risk for FrieslandCampina. These positions are held for strategic purposes.

The sensitivity analysis indicates that, if the share price had risen or declined by 5%, the other reserves as at 31 December 2016 would have been EUR 4 million higher or lower (2015: EUR 4 million).

Liquidity risk

FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities totalling EUR 2,732 million (2015: EUR 2,166 million). Of these facilities EUR 1,465 million (2015: EUR 850 million) was unused at the end of 2015, which is substantially more than the minimum credit headroom of EUR 350 million required according to FrieslandCampina's financial policy.

Cash flows on borrowings

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

					2016
	Carrying amount	Contractual cash flows	2017	2018 - 2021	After 2021
Non-derivative financial liabilities					
Interest-bearing borrowings	1,702	**-1,886**	-592	-629	-665
Financial lease liabilities	8	**-9**	-6	-3	
Trade and other payables	2,908	**-2,908**	-2,908		
Put option liabilities	81	**-81**		-1	-80
Contingent considerations	16	**-16**		-16	
Derivates					
Interest rate swaps	1	**-2**	-1	-1	
Cross currency swaps - inflow	4	**23**	23		
Cross currency swaps - outflow		**-27**	-27		
Forward exchange - inflow	4	**248**	248		
Forward exchange - outflow		**-252**	-252		
	4,724	**-4,910**	**-3,515**	**-650**	**-745**

					2015
	Carrying amount	Contractual cash flows	2016	2017 - 2020	After 2020
Non-derivative financial liabilities					
Interest-bearing borrowings	1,817	-2,019	-850	-758	-411
Financial lease liabilities	11	-11	-3	-7	-1
Trade and other payables	2,604	-2,604	-2,604		
Put option liabilities	6	-6	-5	-1	
Contingent considerations	20	-20	-3	-17	
Derivates					
Interest rate swaps	2	-2	-1	-1	
Cross currency swaps - inflow		23		23	
Cross currency swaps - outflow	3	-26	-1	-25	
Forward exchange - inflow		236	236		
Forward exchange - outflow	4	-240	-240		
	4,467	-4,669	-3,471	-786	-412

Credit Risk

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

FrieslandCampina generally trades with reputable third parties with whom it maintains long-standing trading relationships. In accordance with FrieslandCampina's credit management policy, customers are categorised, and depending on their credit profile, the following types of risk mitigating measures are taken:

- prepayment, paid cash on delivery or collateralisation;
- coverage by letter of credit or bank guarantee;
- credit insurance.

Thanks to the spread of geographical areas and product groups there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer accounts for more than 2% (2015: 3%) of revenue). The total write-offs of trade receivables amount to less than 0.2% of annual revenue. For further information regarding trade receivables see Note 13.

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

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

	2016		2015	
	Uitstaande liquide middelen	Contract-volume derivaten	Uitstaande liquide middelen	Contract-volume derivaten
Credit rating financial institution				
AA	45	243	319	188
A	305	1,207	197	853
BBB	4	2	122	73
< BBB	94	5	53	
No rating	66		130	
	514	**1,457**	821	1,114

Covenant guidelines
Existing guidelines for financial ratios:

Net Debt / EBITDA	< 3.5
EBITDA / Net Interest	> 3.5

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

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

	2016	2015
Non-current interest-bearing borrowings	1,152	1,015
Current interest-bearing borrowings	558	813
Payable to Zuivelcoöperatie FrieslandCampina U.A.	14	40
Cash and cash equivalents	-514	-821
Cash and cash equivalents not freely available	15	61
Net debt	**1,225**	1,108

Derivatives designated as cash flow hedges with the application of hedge accounting

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

					2016
	Fair value	**Expected cash flows**	2017	2018 - 2021	After 2021
Interest rate swaps					
Liabilities	1	**-2**	-1	-1	
Cross Currency swaps					
Assets	79	**81**	32	45	4

					2015
	Fair value	Forecast cash flows	2016	2017 - 2020	After 2020
Interest rate swaps					
Assets	1	1		1	
Liabilities	2	-2	-1	-1	
Cross Currency swaps					
Assets	69	65	6	55	4

Accounting classifications and fair values

The carrying value of the financial assets and liabilities recorded in the consolidated balance sheet, are stated below as are the financial instruments measured at fair value, or with carrying amount that differ from the fair value, shown by valuation method. The fair value is the amount that would be received or paid if the receivables and/or liabilities were settled on the reporting date, without further liabilities. The different levels of input data for the determination of the fair value are defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: input other than quoted market prices that come under Level 1 that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);

Level 3: input related to the asset or liability that is not based on observable market data (unobservable input) whereby this input has a significant impact on the outcome.

2016

	Note	Design-ated at fair value	Fair value hedging instru-ments	Available-for-sale	Loans and receiva-bles	Other financial liabilities	**Total carrying amount**	Level 1	Level 2	Level 3	**Total Fair value**
Financial assets not measured at fair value											
Loans issued - fixed rate	(11)				29		**29**		30		**30**
Loans issued - variable rate	(11)				10		**10**				
Non-current receivables	(11)				5		**5**				
Trade and other receivables	(13)				1,392		**1,392**				
Cash and cash equivalents	(14)				514		**514**				
					1,950		**1,950**				
Financial assets measured at fair value											
Hedging derivatives	(21)		88				**88**		88		**88**
Securities	(11)			84			**84**	83		1	**84**
			88	**84**			**172**				
Financial liabilities not measured at fair value											
Non-current interest-bearing borrowings – fixed rate	(20)					865	**865**		876		**876**
Non-current interest-bearing borrowings – variable rate	(20)					287	**287**		290		**290**
Current portion of the non-current interest-bearing borrowings – fixed rate	(22)					150	**150**		154		**154**
Current portion of the non-current interest-bearing borrowings – variable rate	(22)					16	**16**				
Current loans	(22)					232	**232**				
Bank overdrafts	(22)					160	**160**				
Trade and other payables	(23)					2,908	**2,908**				
						4,618	**4,618**				
Financial liabilities measured at fair value											
Hedging derivatives	(21)		9				**9**		9		**9**
Put option liability	(21)	81					**81**			81	**81**
Contingent considerations	(21)	16					**16**			16	**16**
		97	**9**				**106**				

2015

	Note	Design-ated at fair value	Fair value hedging instru-ments	Available-for-sale	Loans and receiva-bles	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total Fair value
Financial assets not measured at fair value											
Loans issued - fixed rate	(11)				14		14		15		15
Loans issued - variable rate	(11)				10		10				
Non-current receivables	(11)				4		4				
Trade and other receivables	(13)				1,294		1,294				
Cash and cash equivalents	(14)				821		821				
					2,143		2,143				
Financial assets measured at fair value											
Hedging derivatives	(21)		71				71		71		71
Securities	(11)			80			80	79		1	80
			71	80			151				
Financial liabilities not measured at fair value											
Non-current interest-bearing borrowings – fixed rate	(20)					666	666		678		678
Non-current interest-bearing borrowings – variable rate	(20)					349	349		353		353
Current loans	(22)					357	357				
Bank overdrafts	(22)					353	353				
Trade and other payables	(22)					103	103				
Handelscrediteuren en overige verplichtingen	(23)					2,604	2,604				
						4,432	4,432				
Financial liabilities measured at fair value											
Hedging derivatives	(21)		9				9		9		9
Put option liability	(21)	6					6			6	6
Contingent considerations	(21)	17					17			17	17
		23	9				32				

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 2.9% (2015: 3.5%) is used. The fair value of the loan provided with a fixed interest rate is determined using an average interest rate of 2.7% (2015: 2.9%).

Securities

FrieslandCampina holds a 1.1% interest in China Huishan Dairy Holdings Company Ltd. and also holds a 8.2% interest in Synlait Milk Ltd. These interests are classified as other financial assets. Level 1 is used as the measurement method for the valuation and the stock quotations are used as a basis for measurement.

FrieslandCampina holds some interests in two companies that are not listed on a stock exchange. These interests are classified as other financial assets. The fair value of these interests is derived from the equity value of the third parties. This measurement method is classified as Level 3.

Hedging derivatives

The hedging derivatives are classified as Level 2 valuation method. The fair value of the forward exchange contracts is calculated by comparison with the current forward prices of contracts for comparable remaining terms. The fair value of the interest rate swaps is determined using the discounted value based on current market information. The fair value of the commodity swaps is based on the statement of the mark-to-market values of the relevant counterparties.

Put option liabilities

FrieslandCampina issued a put option to IFC and FMO with respect to the shares held in the Dutch legal entity holding 51% of the shares in Engro Foods. The fair value of the put option is determined based on the present value of the expected exercise price at the time that the issued put option can first be exercised. The exercise price is primarily dependent on the Engro Foods' profit before interest, taxes and depreciation and amortisation. The shares are subdivided into type A and type B shares, whereby a cap and floor has been agreed upon in relation to the return on these shares. The put option on type A shares can first be exercised at the beginning of 2022; the put option on type B shares first at the beginning of 2024. The measurement method for this liability is classified as level 3.

In addition FrieslandCampina issued a put option to the co-owner of another subsidiary. The fair value was determined on the basis of the present value of the expected exercise price, should use be made of the put options. The measurement method for this liability is classified as level 3.

The put option pertaining to Sahnemolkerei Hubert Wiesehoff GmbH was settled in 2016 as a result of the sale of the 49% share in Wiesehoff.

Contingent consideration

The contingent consideration has been assumed as a result of the acquisition of the distribution-related activities of the Anika Group. This contingent consideration is valued based on the present value of the expected payment, which is partly dependent on currency translation developments of the Russian Rouble and external market developments.

This measurement method is classified as level 3.

Movements and transfers

During 2016 movements of the financial instruments classified as Level 3 were as follows:

			2016
	Contingent considerations	Put option liabilities	Securities
Carrying amount at 1 January	17	6	1
Arising from acquisition		80	
Divested due to selling businesses		-5	
Finance costs	2		
Fair value adjustment	-3		
Carrying amount at 31 December	**16**	**81**	**1**

			2015
	Contingent considerations	Put option liabilities	Securities
Carrying amount at 1 January	7	8	5
Arising from acquisition	14		
Finance costs	1		
Fair value adjustment	-5	-2	-4
Carrying amount at 31 December	17	6	1

In 2016 and 2015 there were no transfers to or from Level 1, 2 of 3.

28 Specification of external auditor's fees

			2016
	Pricewaterhouse Coopers Accountants N.V.	Other PwC network	**Total PwC netwerk**
Audit of the financial statements	1.5	1.5	**3.0**
Other audit engagements	0.2	0.1	**0.3**
	1.7	**1.6**	**3.3**

29 Subsequent events

FrieslandCampina is exploring the possibility to divest its fruit juices and fruit drinks activities in the Netherlands and Belgium. The revenue amounted to approximately EUR 125 million in 2016. There are approximately 200 FTEs employed.

30 Significant accounting policies

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

Changes in accounting policies and disclosures

New and amended standards, changes and interpretations as adopted by FrieslandCampina

Various amendments were applicable for the first time in 2016 but do not have any impact on FrieslandCampina's consolidated financial statements.

New and revised standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2016 and not adopted early

New standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these consolidated financial statements. This concerns the following new standards:

IFRS 9 'Financial instruments'

IFRS 9 comprises revised stipulations regarding the classification and measurement of financial instruments, including a new model for anticipated credit losses for the purpose of calculating the devaluation of financial assets, and the new general requirements for hedge accounting. FrieslandCampina is currently assessing the potential impact of applying IFRS 9 on FrieslandCampina's consolidated financial statements. This is expected to be completed in 2017. This standard was endorsed by the EU and will become effective from 1 January 2018.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to determine if, how much and when revenue should be recognised. IFRS 15 also includes more extensive disclosure requirements than the current IFRS guidance for revenue. The impact of IFRS 15 for FrieslandCampina's consolidated financial statements is currently being investigated and this is expected to be completed in 2017. IFRS 15 was endorsed by the EU and will become effective from 1 January 2018.

IFRS 16 'Leases'

IFRS 16 comprises a uniform accounting method for all lease agreements in the statement of financial position, whereby lessees must include all leased assets and liabilities in the statement of financial position, except leases for a period of (less than) 12 months and lease contracts linked to assets with a limited value. This will mean that the assets and liabilities related to operating leases will be recognised in the statement of financial position. FrieslandCampina is currently assessing the effect of the application of IFRS 16 on the consolidated financial statements of FrieslandCampina. This is expected to be completed in 2017. IFRS 16 is expected to become effective from 1 January 2019. This standard has yet to be endorsed by the EU.

Basis of Consolidation

Business combinations

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

FrieslandCampina measures goodwill at the acquisition date as:

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

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

Any contingent consideration liability is measured at fair value at the acquisition date. If the contingent consideration is classified as equity it is not remeasured and settlement is accounted for within equity. Subsequent changes in the fair value of the contingent consideration are recognised in the income statement. The interest accrued on and the adjustments made to the fair value as a result of changes to the interest accrual period are reported under finance income and costs. Adjustments to the fair value as a result of other changes are reported under other operating costs and income.

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

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

Acquisition of non-controlling interests

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

Subsidiaries

Subsidiaries are entities over which FrieslandCampina has control. Subsidiaries are fully consolidated from the date that control commences until the date that control ceases.

Loss of control

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

Associates and joint ventures

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

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

After initial recognition, the consolidated financial statements include FrieslandCampina's share of the results and the other comprehensive income of the participations from the date on which FrieslandCampina first has significant influence up to the date on which it last has significant influence or joint control.

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

Elimination of intercompany transactions

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

A list of the principal subsidiaries, joint ventures and associates is included on page 140.

Foreign currency translation

Foreign currency transactions

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

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

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

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

These differences are recognised in equity via the other comprehensive income.

Foreign operations

Assets and liabilities of foreign subsidiaries are translated at the exchange rates on the reporting date; their income and expenses are translated at the exchange rates on the date of the transaction. Foreign currency translation differences are recognised in other comprehensive income and presented in the currency translation reserve in equity. If however, the foreign operation is a subsidiary that is not owned by FrieslandCampina for 100%, the relevant proportion of the translation difference is allocated to non-controlling interests.

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

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

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

		2016
	At year-end	Average
US dollar	1.05	1.11
Chinese yuan	7.34	7.35
Philippine peso	52.19	52.55
Hong Kong dollar	8.16	8.59
Indonesian rupiah (10,000)	1.42	1.47
Malaysian ringgit	4.72	4.59
Nigerian naira (100)	3.32	2.87
Pakistan roupee	109.74	115.94
Russian rouble	64.72	74.13
Singapore dollar	1.52	1.53
Thai baht	37.68	39.05
Vietnamese dong (10,000)	2.40	2.48

		2015
	At year-end	Average
US dollar	1.09	1.11
Chinese yuan	7.09	6.98
Philippine peso	51.25	50.55
Hong Kong dollar	8.42	8.61
Indonesian rupiah (10,000)	1.51	1.49
Malaysian ringgit	4.69	4.34
Nigerian naira (100)	2.16	2.19
Russian rouble	78.85	68.02
Singapore dollar	1.54	1.53
Thai baht	39.12	38.03
Vietnamese dong (10,000)	2.44	2.43

Financial Instruments

Non-derivative financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. The fair value of trade receivables and other receivables outstanding for longer than a year are determined at the discounted value of future cash flows, discounted at the market interest rate on the reporting date.

Subsequent to initial recognition, loans and receivables are measured at amortised costs using the effective interest method, less any impairment losses.

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

The fair value of securities of listed entities is determined on the basis of the stock exchange price. The fair value of the securities of entities not listed on the stock exchange is determined using information not based on observable market data.

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

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

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

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

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

Derivatives (including hedge accounting)
FrieslandCampina holds derivatives to hedge its foreign currency risk, cash flow risks and interest rate risk exposure. Derivatives are recognised initially at fair value; direct attributable transaction costs are recognised in the income statement as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes are accounted for as described below, depending on whether hedge accounting has been applied. When measuring derivatives the credit risk arising from adjustments to the fair value for the credit risk of the counterparty (Credit Valuation Adjustment (CVA)) and the Company's credit risk (Debit Valuation Adjustment (DVA)) are taken into account.

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

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

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

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

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

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

Derivatives without application of hedge accounting
When a derivative is not designated as a hedge relationship that qualifies for hedge accounting all changes in its fair value are recognised immediately in the income statement.

Equity

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

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

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

Property, plant and equipment

Recognition and measurement

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

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

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

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

Acquisition of property, plant and equipment

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

Subsequent costs

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

Depreciation

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

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

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

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

Intangible assets and goodwill

Goodwill

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

Research and development

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

Other intangible assets

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

Acquisition of intangible assets

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

Subsequent costs

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

Amortisation

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

The estimated useful lives for the current year is for the main categories of intangible assets as follows:

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

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

Biological assets

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

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

Inventories

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

Acquisition of inventories

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

Impairments

Non-derivative financial assets

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

Financial assets measured at amortised cost

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

Financial assets classified as available-for-sale

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

Non-financial assets

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

The recoverable amount of an asset or cash flow generating entity is the greater of its value in use and its fair value less costs of disposal. When assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset or cash flow generating entity.

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

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

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

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

Assets held for sale or distribution

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

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

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

Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

Other long-term employee benefits

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

Short-term employee benefits

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

Provisions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

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

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

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

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

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

Cash flows

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

Principal subsidiaries, joint ventures and associates [1]

Principal subsidiaries

The Netherlands

FrieslandCampina Creamy Creation B.V., Amersfoort
FrieslandCampina DMV B.V., Amersfoort
FrieslandCampina Domo B.V., Amersfoort
FrieslandCampina International Holding B.V., Amersfoort
FrieslandCampina Kievit B.V., Meppel
FrieslandCampina Nederland B.V., Amersfoort
FrieslandCampina Nutrifeed B.V., Amersfoort
FrieslandCampina Pakistan Holding B.V., Amersfoort (80%)
FrieslandCampina Riedel B.V., Amersfoort
Zijerveld en Veldhuyzen B.V., Bodegraven

Belgium

FrieslandCampina Bree B.V.B.A., Bree
FrieslandCampina Belgium N.V., Aalter
FrieslandCampina Belgium Cheese N.V., Aalter
FrieslandCampina Professional N.V., Lummen
FrieslandCampina C.V.B.A., Aalter (99.84%)
Yoko Cheese N.V., Genk (99.89%)

Germany

CMG Grundstücksverwaltungs- und Beteiligungs - GmbH, Heilbronn (89.56%) [2]
DMV-Fonterra Excipients GmbH & Co. KG, Goch (50%)
FKS Frischkonzept Service GmbH, Viersen
FrieslandCampina Cheese GmbH, Essen
FrieslandCampina Germany GmbH, Heilbronn (94.9%)
FrieslandCampina Kievit GmbH, Lippstadt
FrieslandCampina Professional GmbH, Cologne
Milchverwaltung FrieslandCampina Germany GmbH, Cologne

Austria

FrieslandCampina Austria GmbH, Stainach

France

FrieslandCampina Cheese France S.A.S., Sénas
FrieslandCampina France S.A.S., Saint-Paul-en-Jarez

Greece

FrieslandCampina Hellas S.A., Athens

Hungary

FrieslandCampina Hungária zRt, Budapest (99.99%)

Italy

FrieslandCampina Italy Srl, Verona
Orange Srl, Bari (80%)

Romania

FrieslandCampina Romania S.A., Satu Mare (93,78%)

Russia

Campina LLC, Moscow

Spain

FrieslandCampina Canarias S.A., Las Palmas
FrieslandCampina Iberia S.L., Barcelona

United Kingdom

FrieslandCampina UK Ltd., Horsham

[1] Unless where stated otherwise, it concerns a 100% interest. If the percentage is below 100%, the direct interest of the parent company in the relevant subsidiary is stated.
[2] Based on a contract, FrieslandCampina is entitled to 100% of this company's results.

China
FrieslandCampina Ingredients (Beijing) Co. Ltd., Beijing
FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai
Hong Kong
China Huishan Dairy Investments (Hong Kong) Ltd., Hong Kong (50%)
FrieslandCampina (Hong Kong) Ltd., Hong Kong
Indonesia
PT Frisian Flag Indonesia, Jakarta (95%)
PT Kievit Indonesia, Jakarta
Malaysia
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)
Pakistan
Engro Foods Ltd., Karachi (51%)
Philippines
Alaska Milk Corporation, Makati City (99.86%)
Singapore
FrieslandCampina (Singapore) Pte. Ltd., Singapore
FrieslandCampina AMEA Pte. Ltd., Singapore
Thailand
FrieslandCampina Fresh (Thailand) Co. Ltd., Bangkok
FrieslandCampina (Thailand) PCL, Bangkok (99.71%)
Vietnam
FrieslandCampina Ha Nam Co. Ltd., Phu Ly
FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)
Egypt
FrieslandCampina Egypt Consulting and Trading S.A.E., Cairo
Ghana
FrieslandCampina West Africa Ltd., Accra
Ivory Coast
FrieslandCampina Ivory Coast S.A., Abidjan
Nigeria
FrieslandCampina WAMCO Nigeria PLC, Ikeja (67.81%)
Saudi Arabia
Friesland Arabia Ltd., Jeddah
United Arab Emirates
FrieslandCampina Middle East DMCC, Dubai
USA
FrieslandCampina Ingredients North America Inc, Paramus, State: New Jersey

Joint ventures and associates [3]

Betagen Holding Ltd., Hong Kong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, the Netherlands (49.9%)
Dutch Dairy Ingredients B.V., Leeuwarden, the Netherlands (82.33%)
Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)

[3] FrieslandCampina does not have control over these joint ventures and associates. This consideration was based on an analysis of both the shares and the voting rights held by FrieslandCampina for the relevant joint venture or associate.

Company statement of financial position

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

	Note	2016	2015
Assets			
Investments in subsidiaries	(2)	2,404	2,179
Loans to subsidiaries	(3)	886	362
Deferred tax assets		11	8
Other financial assets	(9)	64	77
Non-current assets		**3,365**	2,626
Other receivables	(4)	2,922	4,398
Other financial assets	(9)	40	15
Cash and cash equivalents		14	285
Current assets		**2,976**	4,698
Total assets		**6,341**	7,324
Equity			
Issued capital		370	370
Share premium		114	114
Fair value reserve		27	24
Statutory cash flow hedge reserve		-33	-25
Statutory currency translation reserve		-45	-45
Statutory reserve for investments in subsidiaries		290	261
Profit for the year attributable to the shareholder		229	218
Retained earnings		357	191
Equity attributable to the shareholder	(5)	**1,309**	1,108
Member bonds		1,564	1,428
Cooperative loan		296	296
Equity attributable to the shareholder and other providers of capital	(5)	**3,169**	2,832
Liabilities			
Interest-bearing borrowings	(6)	1,112	964
Other financial liabilities	(9)	1	5
Non-current liabilities		**1,113**	969
Current borrowings	(7)	490	692
Trade and other payables		13	8
Other liabilities	(8)	1,548	2,819
Other financial liabilities	(9)	8	4
Current liabilities		**2,059**	3,523
Total liabilities		**3,172**	4,492
Total equity and liabilities		**6,341**	7,324

Company income statement

In millions of euros

	2016	2015
Share of profit of subsidiaries, net of tax	257	215
Other results, net of tax	25	55
Profit for the year	**282**	270

Notes to the company financial statements

In millions of euros, unless stated otherwise

1 General

Accounting policies and notes

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

See the Notes to the consolidated financial statements for items not included in the Notes to the company financial statements. Investments in subsidiaries are measured using the net asset value.

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

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

2 Investments in subsidiaries

	2016	2015
At 1 January	2,179	2,144
Profit for the year	257	215
Other comprehensive income	-32	56
Transactions with holders of non-controlling interest		-176
Reclassification of loans to subsidiaries		-60
At 31 December	**2,404**	2,179

3 Loans to subsidiaries

	2016	2015
At 1 January	362	1,557
Reclassification of loans to subsidiaries		60
Reclassification of current loans to other receivables	-282	-1,237
Loans issued	828	39
Repaid loans	-22	-57
At 31 December	**886**	362

			2016			2015
Maturity schedule	2018 - 2021	After 2021	**Total repayments**	2017 - 2020	After 2020	Total repayments
Loans to subsidiaries	879	7	**886**	342	20	362

The loans issued serve to finance subsidiaries. The current portion of these issued loans is recognised under other receivables. The average interest rate on the total of financing of subsidiaries at the end of 2016 was 1.4% (2015: 1.5%).

4 Other receivables

EUR 2,190 million (2015: EUR 2,816 million) of the other receivables relates to a temporary current account with subsidiaries resulting from the sweeping of bank positions within FrieslandCampina and EUR 730 million (2015: EUR 1,579 million) relates to the current receivables from subsidiaries and the current portion of loans to subsidiaries.

5 Equity attributable to the shareholder and other providers of capital

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

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed. Furthermore EUR 290 million (2015: EUR 261 million) has been classified as a statutory reserve for investments in subsidiaries. This statutory reserve concerns, among other items, the implementation costs of the ICT standardisation programme (see Note 8 in the consolidated financial statements) and as such cannot be distributed.

The equity that is attributable to the shareholder and other providers of capital and that is included in the company financial statements is equal to the equity attributable to the shareholder and other providers of capital that is included in the consolidated financial statements. See Note 16 in the consolidated financial statements for more details regarding equity.

6 Non-current interest-bearing borrowings

	2016	2015
Borrowings from credit institutions	277	296
Borrowings from institutional investors	536	666
Borrowings from holders of green bonds	299	
Other interest-bearing borrowings		2
	1,112	964

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

					2016		2015
Loan	Currency	Year of maturity	Nominal interest rate	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Green bonds (fixed interest)	EUR	2021-2026	1.4	300	299		
Syndicate (variable interest)	EUR	2021	0.7	250	247	300	296
European Investment Bank (fixed interest)	EUR	2023-2026	0.5	30	30		
Private Placement (fixed interest)	USD/EUR	2017	4.4			129	129
Private Placement (fixed interest)	USD	2020	5.7	126	126	122	122
Private Placement (fixed interest)	USD	2022	4.0	76	76	74	74
Private Placement (fixed interest)	USD	2024	4.2	139	139	134	134
Private Placement (fixed interest)	USD	2017	4.0			19	19
Private Placement (fixed interest)	USD	2018-2027	4.0	195	195	188	188
Other						2	2
				1,116	**1,112**	968	964

See Note 20 in the consolidated financial statements for the disclosure of borrowings from the credit institutions and borrowings from institutional investors.

7 Current borrowings

	2016	2015
Current portion of non-current interest-bearing borrowings	150	349
Current loans	157	215
Borrowings from member dairy farmers	25	34
Bank overdrafts	158	94
	490	692

At year-end 2016, the current portion of the non-current interest-bearing borrowings includes an amount of EUR 150 million (2015: none) as the current portion of privately placed loans taken out from institutional investors (Private Placements) in the United States of America. The current portion of the non-current interest-bearing borrowings at year-end 2015 includes an amount of EUR 349 million in relation to a withdrawal from the syndicate facility with a short-term nature.

EUR 77 million (2015: EUR 115 million) of the current borrowings is related to Commercial Papers and EUR 80 million to uncommitted facilities (2015: EUR 100 million).

The obligations to member dairy farmers concern three-year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers with the payment of a 0.75% interest penalty.

8 Current liabilities

EUR 1,532 million (2015: EUR 2,772 million) of the current liabilities concerns a temporary current account with subsidiaries as a result of the sweeping of bank positions within FrieslandCampina. In addition a liability to Zuivelcoöperatie FrieslandCampina U.A. of EUR 14 million is recognised (2015: EUR 40 million).

9 Other financial assets and liabilities

	2016	2015
Other financial assets		
Cross currency swaps	79	69
Interest rate swaps		1
Forward exchange contracts	6	4
Commodity swaps	7	
Loans issued	8	8
Interest receivable	4	10
	104	92
Other financial liabilities		
Cross currency swaps	4	3
Interest rate swaps	1	2
Forward exchange contracts	4	4
	9	9

The cross currency swaps and interest rate swaps are equal to the consolidated financial statements (see Note 21 of the consolidated financial statements). As a result of derivatives arranged with subsidiaries, the forward exchange contracts recognised in other financial assets in the company financial statements are higher than in the consolidated financial statements. The contract volumes for the forward exchange contracts are EUR 434 million (assets) and EUR 302 million (liabilities) (2015: EUR 278 million and EUR 267 million respectively).

10 Financial instruments

FrieslandCampina is sensitive to various financial risks, such as credit risks, interest rate risks, share price risk, liquidity risks and currency risks. The Notes to the consolidated financial statements contain information regarding FrieslandCampina's exposure to each of these risks and FrieslandCampina's objectives, principles and procedures for managing and measuring these risks, see Note 27 of the consolidated financial statements.

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

Fair value

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

		2016		2015
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets not measured at fair value				
Loans to subsidiaries	886	886	362	363
Other receivables	2,922	2,922	4,398	4,398
Other financial assets (excluding hedging derivatives)	12	12	18	18
Cash and cash equivalents	14	14	285	285
	3,834	**3,834**	5,063	5,064
Financial assets measured at fair value				
Hedging derivatives	92	92	74	74
	92	**92**	74	74
Financial liabilities not measured at fair value				
Non-current interest-bearing borrowings – fixed rate	865	876	666	678
Non-current interest-bearing borrowings – variable rate	247	250	298	302
Current portion of the non-current interest-bearing borrowings - fixed rate	150	154		
Current portion of the non-current interest-bearing borrowings - variable rate			349	349
Current borrowings	340	340	343	343
Current payables to subsidiaries	1,548	1,548	2,819	2,819
Trade and other payables	13	13	8	8
	3,163	**3,181**	4,483	4,499
Financial liabilities measured at fair value				
Hedging derivatives	9	9	9	9
	9	**9**	9	9

11 Commitments and contingencies

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

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

12 Remuneration of the Supervisory Board and the Statutory Directors

The remuneration of members of the Supervisory Board and the Statutory Directors is equal to the remuneration of members of the Supervisory Board and the Executive Board as disclosed in Note 26 of the consolidated financial statements. During the year under review no employees were employed by the Company.

13 Subsequent events

For information regarding subsequent events, see Note 29 of the consolidated financial statements.

14 Proposed appropriation of profit attributable to the shareholder

The Supervisory Board has approved the Executive Board's proposal that of the EUR 282 million profit, EUR 9 million is reserved as interest compensation for the Cooperative loan, EUR 44 million is reserved as interest compensation on the member bonds and EUR 229 million is added to the retained earnings.

Amersfoort, the Netherlands, 24 February 2017

Executive Board
Royal FrieslandCampina N.V.
R.A. Joosten, CEO
H.M.A. Schumacher, CFO
S.G. van den Berg
P.J. Hilarides
R.F. van Neerbos
M.A.K. Snels

Supervisory Board
Royal FrieslandCampina N.V.
F.A.M. Keurentjes, Chairman
W.M. Wunnekink, Vice-chairman
J.W. Addink-Berendsen
B.E.G. ten Doeschot
P.A.F.W. Elverding
L.W. Gunning
H.T.J. Hettinga
D.R. Hooft Graafland
A.A.M. Huijben-Pijnenburg
J.P.C. Keijsers
G. Mulder
H. Stöcker
B. van der Veer

Other information

Provisions of the Articles of Association governing profit appropriation

The provisions regarding the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the Company's reserve policy, as included in Article 27 of the Articles of Association, on a proposal from the Executive Board approved by the Supervisory Board. Distributions chargeable to a reserve may be made on a proposal from the Executive Board, which will be subject to the approval of the Supervisory Board, pursuant to a resolution passed by the General Meeting. Unretained profit will be distributed.

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Independent auditor's report

To: the General Meeting of Shareholders and the Supervisory Board of Royal FrieslandCampina N.V.

Report on the financial statements 2016

Our opinion

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2016 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying company financial statements give a true and fair view of the financial position of Royal FrieslandCampina N.V. as at 31 December 2016 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2016 of Royal FrieslandCampina N.V., Amersfoort ('FrieslandCampina' or 'the company'). The financial statements include the consolidated financial statements of Royal FrieslandCampina N.V. and its subsidiaries (together: 'the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the following statements for 2016: the consolidated income statement and the consolidated statements of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2016;
- the company income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section 'Our responsibilities for the audit of the financial statements' of our report.

Independence

We are independent of Royal FrieslandCampina N.V. in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA).
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Our audit approach

Overview and context

Royal FrieslandCampina N.V. is a dairy company and is via Zuivelcoöperatie FrieslandCampina U.A. owned by the member farmers. The member farmers are responsible for the milk deliveries and are represented in the Supervisory Board of FrieslandCampina. These members are important stakeholders of FrieslandCampina and therefore also influenced the materiality setting as included in the section 'Materiality' in this auditor's report. The organisational structure is further explained in the Corporate Governance chapter of the Annual Report. This structure also has its influence on the Annual Report and our audit approach, for example regarding to purchases of milk and cooperative activities (further explained in the About Royal FrieslandCampina chapter of the Annual Report).

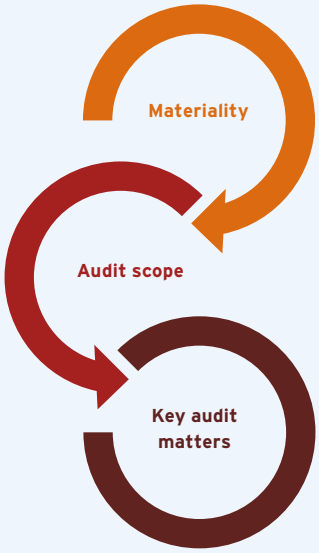
The activities of the group are divided into five business groups: Consumer Products Europe, Middle East & Africa (CP EMEA), Consumer Products Asia, Consumer Products China, Cheese, Butter & Milkpowder (CB&M) and Ingredients. The group audit has been performed along the lines of these five business groups.

This was our first year as auditor of FrieslandCampina. We have elaborated on the impact of this in the section 'The scope of our group audit'. We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Executive Board made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the notes of the financial statements the company describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Given the significant estimation uncertainties in the valuation of goodwill and tax positions, we considered these to be key audit matters as set out in the 'key audit matter' section of this report. Furthermore, we identified the accounting for acquisitions in the financial statements as a key audit matter considering the magnitude of the acquisitions, extent of professional judgement used in determining the initial valuation of the acquisitions and the impact on our group audit.

In all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Executive Board that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and component level included the appropriate skills and competences which are needed for the audit of an internationally operating dairy company. We therefore included specialists with expertise in IT-systems, valuation of assets, (international) taxes and retirement benefits in our team.

The outlines of our audit approach were as follows:



Materiality

- Overall materiality: €45 million which represents 1.5% of the compensation to the members for milk supply based on the guaranteed price.

Audit scope

- We performed audit procedures on 24 components in 15 countries.
- The Dutch group auditor visited six foreign locations and met all foreign teams during the transition period.
- Audit coverage: 83% of the consolidated revenue and 79% of consolidated total assets.

Key audit matters

- Accounting for acquisitions in the financial statements.
- Valuation of goodwill and other fixed assets.
- Tax positions.

Materiality
The scope of our audit is influenced by the application of materiality which is further explained in the section 'Responsibilities for the audit of the financial statements'.

We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements on our opinion.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall group materiality	€45 million.
How we determined materiality	1.5% of the compensation to the members for milk supply based on the guaranteed price.
Rationale for benchmark applied	We have applied this benchmark, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that the compensation to the members for milk supply based on the guaranteed price is an important benchmark for the financial performance of the company.
Component materiality	To each component in our audit scope, we allocated materiality, based on our judgement, that is less than our overall group materiality. The range of materiality allocated to the components is based on the contribution per component to the consolidated revenue and consolidated result before taxes. The majority of the components included in the scope of the group audit are audited with the statutory materiality level based on the mandatory statutory audit, which is substantially lower than the overall materiality applied for the group as a whole.

We also consider misstatements and/or possible misstatements that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board and the Audit Committee that we would report to them any misstatements identified during our audit exceeding €1 million as well as misstatements below that amount that, in our view based on our judgement, are relevant to report for qualitative reasons.

The scope of our group audit
Royal FrieslandCampina N.V. is the parent company of a group of subsidiaries. The financial information of this group is included in the consolidated financial statements. The rotation of the external auditor results in additional procedures and considerations in setting the scope of the group audit during the first year. These mainly relate to gaining an initial understanding of the group, its activities, structure, risk assessment procedures, corporate governance structure and the internal control environment, including the IT-environment. These initial procedures are performed both in the Netherlands and abroad.

Being the new auditor, we need to gain sufficient and appropriate audit evidence over the opening balance and the applied accounting policies. To obtain information over the opening balance and the applied accounting policies we performed reviews on the audit files and inquired with the previous auditor. The findings of the transition are reported separately to the Executive Board, the Supervisory Board and the Audit Committee.

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First year audit

To obtain an initial understanding of the group and its activities, we have performed the following procedures:

- Meetings were held with the Managing Directors and Finance Directors of the business groups and the staff departments of FrieslandCampina;
- Participating in the Audit Committee meetings as of August 2015;
- The attendance of the member meeting in April 2016 where the 2015 financial statements were discussed;
- The visiting of farms of member farmers;
- The visiting of production locations;
- The visiting of (foreign) distributors; and
- The visiting of (foreign) subsidiaries.

We have also identified the components of the internal control environment and IT-systems that are relevant to the audit. In obtaining our initial understanding we have utilised the Internal Control Framework and (where possible) relied on this framework. This resulted in a (substantially) controls based audit.

The group audit

In determining the scope of our group audit we have taken into account the following elements of the internal control environment of the group:

- Internal Control Framework: during our audit we utilised the globally implemented Internal Control Framework of the group.
- Central IT systems: the majority of the IT systems of the group are operated centrally. Our IT-specialists have tested the central ERP systems and IT-procedures and we have shared the outcome of our work with the local audit teams.
- Financial Shared Service Centre: the group is using a financial shared service centre in which the majority of the administration for the Dutch subsidiaries is performed, which is therefore audited centrally by the group audit team.
- In determining our audit approach we have considered the outcome of the work performed and reports of the Corporate Internal Control and the Corporate Internal Audit department. Where considered relevant, we have included their findings in our approach.

In determining the scope of the group audit we have taken into account the relative share of the individual component and the risk profile. Based on our analysis we have performed audits of financial information of 24 components. The Dutch activities of the group have been identified as significant components based on the revenue, total assets and the profit before tax.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	83%
Total assets	79%
Profit before tax	85%

For those remaining components not included in our group audit scoping we performed procedures at group level. Amongst other procedures, we discussed with the Finance Directors and business group management and we have performed analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components. Where considered necessary we have extended our work performed and requested further detailed information.

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Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. As part of our involvement as group auditor we have visited components and their auditors in Germany, Vietnam, Thailand, Malaysia and Singapore.

The consolidation of the group, financial statement disclosures and a number of other items (such as the valuation of goodwill, accounting and disclosure for acquisitions, significant tax positions) have been audited by the group audit team. The Dutch activities of CB&M, CP EMEA and Ingredients are also audited by the group audit team to ensure that the knowledge of the activities and outcome of the audit is directly available to the group audit team.

By performing the procedures above at the component level, combined with additional procedures at group level, we have obtained sufficient and appropriate audit evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board and the Audit Committee, however these are not a comprehensive reflection of all risks and matters that were identified by our audit and that we discussed. We described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters or on specific elements of the financial statements. Any comments we make on the results of our procedures should be read in this context.

Key audit matter	How our audit addressed the matter
Acquisitions In 2016 the group acquired a 51% share in Engro Foods Ltd. (Pakistan). Attention points relating to the accounting and disclosure of the acquisition relate to the control assessment and the accounting for the put-option on the shares held by IFC/FMO in a subsidiary of the company. Also, the auditing of the opening balance, identifying intangible assets and determining the fair value of the acquired assets and liabilities assumed are considered key points of attention. Also, the purchase price allocation for the 2015 acquisitions of Fabrelac (Belgium) and the distribution activities of Anika Group (Russia) have been finalised in 2016. Acquisitions are considered a key audit matter because of the (financial) impact of these transactions on the group as a whole and the disclosure in the financial statements. Also, the underlying assumptions (such as discount rate and future cash flows) to determine the fair value amount of the identified assets and liabilities as well as disclosure of the acquisitions are subject to management judgement. The acquisition in 2016 and finalisation of the purchase price allocation in 2016 relating to the 2015 acquisitions are disclosed in Note 1 of the financial statements.	As part of our audit procedures we took notice of the share purchase agreements, including assessing the control assessment, auditing the opening balances and the (provisional) purchase price allocation. Our valuation specialist have assessed the (provisional) purchase price allocation of the acquisition. The procedures are mainly focused on identifying and determining the fair value of the acquired assets and liabilities assumed at the acquisition date, including the discount rate (determined by independent assessment) and the expected revenue and margin developments (determined by reconciliation to the budget and management forecasts). Next to this we have determined that the required disclosures are sufficiently disclosed in the 2016 financial statements. Considering the size of Engro Foods Ltd. we have included this entity in our group audit scoping. In relation to the 2015 acquisitions for which the purchase price allocation was finalised in 2016 we have tested, together with our valuation specialist, the assumptions underlying the fair value assessment of the in 2015 acquired assets and liabilities assumed and identification of intangible assets. Based on our procedures performed and audit evidence obtained we have not identified any significant matters relating to the (provisional) accounting for the acquisitions.

Key audit matter	How our audit addressed the matter
Valuation of goodwill and other fixed assets	
The financial statements include a number of asset categories. These assets are assessed on an annual basis for impairment. The group reported €1.2 billion goodwill relating to acquisitions. The valuation of goodwill is tested on an annual basis at the level of the business groups. The most important assumptions in the goodwill impairment test are the discount rate, the long term growth rate, the gross margin growth rate and the forecasted results. We paid special attention to the valuation of these assets considering the goodwill test is complex and involves management estimates based on the above mentioned assumptions. Given the significance of goodwill, an impairment might have a material impact on the financial statements. Therefore, we have included valuation of goodwill as a key audit matter in our audit. The key assumptions are disclosed in Note 8 of the financial statements. The other fixed assets and intangible assets other than goodwill are tested for triggering events that might result into an impairment. These are included in Note 8 of the financial statements.	As part of our audit procedures we have tested the valuation methodology, the assumptions applied in the goodwill impairment model and we have tested the underlying calculations. Together with the valuation specialists we have tested the key assumptions with available market information (such as market interest). We prepared our own independent expectations and performed reconciliations to the budget and management forecast. We have verified whether the required disclosures relating to the valuation of goodwill and the underlying key assumptions are included in the 2016 financial statements. Also, we have considered the allocation of the compensation between the business group Cheese, Butter & Milkpowder and the other business groups for the role of business group Cheese, Butter & Milkpowder has in the processing of milk (as disclosed in Note 8 of the financial statements). For the other fixed assets we have assessed management's triggering event analysis based on the underlying budgets, plans and management reports and determined the consistency with the key assumptions applied in the goodwill impairment model. Based on our procedures performed and audit evidence obtained, including management's impairment assessment and management's triggering event analysis, we did not note any significant findings.
Tax positions	
The tax positions of the group are a key audit matter in our audit, considering these are material to the financial statements, the limitations in settlement of tax positions and the significance of management assumptions to the valuation of tax positions. Details relating to the tax position are included in Note 6 and 18 of the financial statements. The group has subsidiaries in several countries and is therefore also subjected to local tax legislation in those countries. As a result, the valuation of the (deferred) tax positions and determining the internal transfer pricing is considered complex. Especially the tax positions and acceptable internal transfer prices in Asia are subject to estimates.	We have tested the Dutch and international current and deferred tax positions and internal transfer prices together with our international tax specialists. During our audit of the tax positions included in the 2016 financial statements of FrieslandCampina we have assessed management's estimates based on tax legislation and the expected developments in the results in different countries. Together with our international tax specialists have tested the tax positions and internal transfer prices applied for the Asian countries. Next to this we have verified whether the required disclosures for the tax positions are sufficiently included in Note 6 and 18 in the financial statements. Based on the work performed and the audit evidence obtained no significant matters were noted on the tax positions and related disclosures in the 2016 financial statements.

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Report on the other information included in the annual report

In addition to the financial statements and our auditors' report thereon, the Annual Report contains other information that consists of:

- the foreword from the CEO;
- the key figures;
- the major developments in 2016;
- the report of the Executive Board;
- the Corporate Governance report; and
- the Other Information.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains all information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the Other Information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the Other Information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Auditing Standard 720. The scope of such procedures were substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the Other Information, including the report of the Executive Board and the Other Information pursuant to Part 9 Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

On 30 April 2015 we were, based on nomination of the Supervisory Board, appointed by the General Meeting of Shareholders as auditors of Royal Friesland Campina N.V. We have been appointed as auditors as of the financial year 2016.

Responsibilities for the financial statements and the audit

Responsibilities of the Executive Board and the Supervisory Board for the financial statements

The Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

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Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 24 February 2017
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by J.E.M. Brinkman RA

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Appendix to our auditor's report on the financial statements 2016 of Royal FrieslandCampina N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Concluding on the appropriateness of the Executive Boards' use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Overviews

Financial history

In millions of euros, unless stated otherwise	2016	2015	2014	2013	2012
Key figures					
Income statement					
Revenue	**11,001**	11,210	11,348	11,281	10,309
Operating profit before one-time items			412	513	
Operating profit	**563**	576	489	313	487
Profit for the year	**362**	343	303	157	278
Guaranteed price	**28.38**	30.68	39.38	39.45	33.87
Performance premium in euros per 100 kg	**2.19**	2.25	1.86	1.81	1.42
Issue of member bonds in euros per 100 kg	**1.25**	1.28	1.07	1.23	0.95
Meadow milk premium in euros per 100 kg	**0.29**	0.29	0.29	0.31	0.32
Special supplements in euros per 100 kg	**0.15**	0.14	0.10	0.10	0.12
Milk price in euros per 100 kg	**32.26**	34.64	42.70	42.90	36.68
Financial position					
Balance sheet total	**9,374**	8,421	7,676	7,112	6,831
Equity attributable to the shareholder	**1,309**	1,108	991	920	926
Equity attributable to the shareholder and other providers of capital	**3,169**	2,832	2,587	2,405	2,140
Net debt	**1,225**	1,108	981	696	685
Cash flows					
Net cash flows from operating activities	**850**	1,019	554	588	842
Net cash flows used in investing activities	**-955**	-705	-627	-576	-702
Depreciation of plant and equipment and amortisation of intangible assets	**307**	275	231	213	194
Additional information					
Equity as a % of total assets	**33.8**	33.6	33.7	33.8	31.3
Employees (average number of FTEs)	**21,927**	22,049	22,168	21,186	20,045
Total milk processed (in millions of kg)	**11,231**	11,066	10,716	10,659	10,215
Milk supplied by members (in millions of kg)	**10,774**	10,060	9,453	9,261	8,860

Milk price overview

In euros per 100 kilos of milk at 3.47% protein, 4.41% fat and 4.51% lactose in the ratio 10:5:1 excluding VAT	**2016**	2015
Fat price	10.22	11.02
Protein price	16.07	17.33
Lactose price	2.09	2.25
	28.38	30.60
Adjustment guaranteed price		0.08
Guaranteed price	**28.38**	30.68
Performance premium	2.19	2.25
Meadow milk premium [1]	0.29	0.29
Special supplements [2]	0.15	0.14
Cash price	**31.01**	33.36
Issue of member bonds	1.25	1.28
Milk price	**32.26**	34.64
Additional payments [3]	0.22	
Interest member bonds	0.41	0.42
Retained earnings	2.12	2.17
Performance price	**35.01**	37.23

[1] Dairy farmers applying pasturing receive a 1.00 euro meadow milk premium per 100 kilos of milk for 2016. An amount of 0.50 euros per 100 kilos of meadow milk is paid from the operating profit. On average on all FrieslandCampina member milk, this amounts to 0.29 euros per 100 kilos of milk. Furthermore, another 0.50 euros per 100 kg of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euros per 100 kilos of milk is withheld from all milk. This also pays for the partial pasture grazing premium.

[2] Special supplements concern the total amount of pay-outs per 100 kilos of milk of Landliebe milk of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (47.71 euros including a settlement of 0.04 euro per 100 kilos of milk because of an underestimate over 2016) and the guaranteed price (28.38 euros) per 100 kilos of milk. On average on all FrieslandCampina member milk, this amounts to 0.15 euro per 100 kilos of milk.

[3] In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measure.

Risk management framework

Introduction

FrieslandCampina has implemented a risk management and internal control system designed to provide reasonable assurance that strategic objectives are met by creating focus, by integrating management control over the Company's operations, by ensuring compliance with applicable laws and regulations, and by safeguarding the reliability of the financial reporting and its disclosures. The Executive Board reports on, and accounts for, internal risk management and control systems, to the Supervisory Board and its Audit Committee.

The Company's risk management approach is embedded in the periodic business planning and review cycle, and forms an integral part of business management. Based on risk assessments, management determines the risks and appropriate risk responses related to the achievement of business objectives and critical business processes.

The Company's risks are divided into four categories, consistent with the COSO model:

- strategic risks, defined as events that may have a negative impact on the ability to achieve the strategic objectives;
- operational risks, defined as events that may affect the operational objectives negatively due to ineffective operations or the inefficient use or loss of raw materials and/or assets;
- financial (reporting) risks, defined as the risk of misstatements in the consolidated external financial reporting;
- compliance risks, defined as non-compliance with applicable laws, regulations or good business conduct that may result in penalties or a negative impact on the Company's reputation.

Risk appetite

The risk appetite reflects the willingness of management to accept risks. FrieslandCampina has defined a maximum risk exposure on aggregate for strategic, operational, financial (reporting) risks and compliance risks. To prevent an accumulation of risks exceeding this exposure, lower risk management thresholds have been defined internally for business groups and operating companies. All potential risks above these thresholds must be mitigated by management.

FrieslandCampina expressed the following risk appetite:

- strategic – for strategic risks, FrieslandCampina is prepared to take some calculated risk related to achieving its performance objectives;
- operational – for operational risks, FrieslandCampina seeks to minimise the impact of unforeseen operational disruptions on its businesses;
- financial – for financial and financial (reporting) risks, FrieslandCampina has a conservative and robust finance framework of policies and procedures;
- compliance – for compliance risks FrieslandCampina applies a zero tolerance policy. Breaches of the code of conduct are dealt with expeditiously.

Although risk appetite has always been an integral part of FrieslandCampina's risk strategy, the Company is developing a more structured approach to the development of formalised risk appetite statements.

Risk management process

The FrieslandCampina risk management process involves the identification, measurement, evaluation and management of risks. FrieslandCampina applies various programmes for risk categories, as explained in Table 1.

Table 1: Risk management process

Risk category	Main risk management programme	Explanation
Strategic risks	Enterprise Risk Assessment	Strategic risks are managed through the regular planning and reporting processes, which include regular business reviews on strategic plans, budgets, forecasts and monthly results. Additionally, an Enterprise Risk Assessment programme is in place. In this programme, risk assessments are conducted annually with the managements of FrieslandCampina's key operating companies, all business groups and with the Executive Board. In an Enterprise Risk Assessment, management defines the most important risks, evaluates the current risk mitigation and defines additional improvement measures. Managements of operating companies and business groups report regularly on the outcomes of these Enterprise Risk Assessments and on the progress of risk mitigation measures.
Operational risks	Programmes per functional discipline	Operational risks are managed through several programmes per functional discipline, for example the *Foqus* programme for food safety and product quality, the global *Foqus SHE* programme for employee safety, and Human Resource programmes for performance and talent management. Although these programmes are different in nature and are managed by various functional departments, they are all aimed at identifying and evaluating risks and defining additional improvement measures. Various corporate departments report regularly on the progress and outcomes of these programmes.
Financial (reporting) risks	*Internal Control Framework*	FrieslandCampina is exposed to a variety of financial risks (including liquidity risk, currency risk, interest rate risk, commodity price risk, credit risk, country risk and other insurable risks), as well as to a range of uncertainties which could have a significant impact on local tax results. For further details of treasury, tax and other financial risks, please refer to notes 24 and 27. Financial (reporting) risks are managed in several ways, for example by means of accounting and reporting policies, accounting instructions and systems. FrieslandCampina also applies the Internal Control Framework, based on the COSO 1992 framework. The Internal Control Framework comprises a structured self-assessment and monitoring process used company-wide to assess, document, review and monitor compliance with internal control over financial reporting. Internal management representation, regular management reviews of findings and improvement measures, reviews of the design and effectiveness of internal controls, and reviews in the Audit Committee are all integral parts of the Company's Internal Control Framework approach
Compliance risks	*Compass*	Compliance risks cover unanticipated failures to implement, or comply with, appropriate laws, regulations, policies and procedures. FrieslandCampina's code for good business conduct, *Compass*, plays an important role in managing compliance risks. This code of conduct and related guidelines form the basis for the honest, respectful and transparent business conduct of FrieslandCampina's employees and the third parties with whom FrieslandCampina cooperates. Compliance with this code of conduct and the guidelines is supported by training courses, compliance statements by management, designated confidential advisors worldwide, an integrity committee and a reporting platform that is available to employees 24/7 so that they can express their concerns in confidence on any suspected infringement of the code or a guideline. FrieslandCampina has implemented various other measures to ensure compliance with the laws and regulations of various countries. This is described in further detail in the Risk Management chapter on page 57 of this Annual Report.

The risk management process was further strengthened in 2016. For internal controls, control activities were standardised and further automated, making better use of the standard SAP template that FrieslandCampina is rolling out globally. FrieslandCampina started independent testing of the most critical internal controls alongside execution of control self-assessments. Throughout the organisation, full attention is devoted to the implementation of these internal checks and a great deal of effort is made to resolve or reduce the impact of any shortcomings relating to these checks. Much attention was given to strengthening the *Compass* programme, for example through improved training and by intensifying awareness programmes.

Risk taxonomy

The risk taxonomy, or risk universe, outlines broad categories of risk to which FrieslandCampina is exposed. It may assist all organisational levels in articulating and aggregating risks throughout FrieslandCampina. The risk universe is reviewed annually.

Risk governance

The Executive Board bears ultimate responsibility for the effective management of risk. To support the Board, responsibilities for risk management are delegated according to the 'three lines of defence' model. This model is described in Table 2.

The Executive Board is updated regularly by the corporate departments ('second line') on the progress and outcomes of the various risk management programmes, to support evaluating the effectiveness of measures. Corporate Internal Audit reports to the Executive Board regularly and independently on the effectiveness of risk management.

For risks, the Supervisory Board is advised by the Audit Committee. The role of the Audit Committee is described in the chapter on Corporate Governance.

Table 2: Risk governance

Line of defence	Explanation	Responsibility
1st line of defence	Management bears primary responsibility for identifying and managing risks on a day-to-day basis and for maintaining a system of effective internal control measures to mitigate these risks.	Individual managers and management teams in business groups and/or operating companies
2nd line of defence	Supports management in developing, maintaining and monitoring the effectiveness of risk management processes and systems. The 2nd line also defines the risk management framework, policies and procedures.	Corporate departments including Enterprise Risk Management, Internal Control, Compliance and Legal Affairs
3rd line of defence	Provides an independent assessment of the design and operating effectiveness of internal control measures, including risk management activities performed by functions in the 1st and 2nd lines of defence.	Corporate Internal Audit

Supervisory Board

Members of the Supervisory Board
Frans Keurentjes was appointed Chairman of the Supervisory Board of Royal FrieslandCampina N.V. effective from 20 December 2016. He succeeds Piet Boer whose term under the Articles of Association expired on 20 December 2016 and who was ineligible for reappointment. Frans Keurentjes also replaces Piet Boer on the Remuneration and Appointment Committee. Simon Ruiter's term under the Articles of Association also expired on that date and was ineligible of reappointment. As at 20 December 2016, Erwin Wunnekink was appointed Vice-Chairman of the Supervisory Board. He succeeds Jan Keijsers, who will continue to be a member of the Supervisory Board. Hans Hettinga and Gjalt Mulder joined the Supervisory Board on 20 December 2016. Sandra Addink and Angelique Huijben replace Simon Ruiter and Erwin Wunnekink on the Audit Committee.

Frans (F.A.M.) Keurentjes (1957)

Position	Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016, member since 31 December 2008
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Member of the Agricultural Tenancies Authority North

Erwin (W.M.) Wunnekink (1970)

Position	Vice-Chairman of the Supervisory Board of Royal FrieslandCampina N.V., Vice-Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016, member since 16 December 2009
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Member of the Supervisory Board of ForFarmers N.V.

Sandra (J.W.) Addink-Berendsen (1973)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	16 December 2014
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Member of the Supervisory Board of ForFarmers N.V., member of the Supervisory Board of Alfa Top-Holding B.V.

Bert (B.E.G.) ten Doeschot (1971)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	15 December 2015
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Member of the Supervisory Board of Rabobank Centraal Twente

Peter (P.A.F.W.) Elverding (1948)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	31 December 2008
Nationality	Dutch
Other positions	Chairman of the Supervisory Board of Royal BAM Groep nv, Vice-Chairman of the Supervisory Board of SHV Holdings N.V., member of the Executive Board of the Berenschot Management Trust, member of the Executive Board of the GAK Institute Foundation

Tex (L.W.) Gunning (1950)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	14 December 2011
Nationality	Dutch
Other positions	CEO LeasePlan Corporation N.V.

Hans (H.T.J.) Hettinga (1959)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Board member CDA Súdwest-Fryslân municipality

René (D.R.) Hooft Graafland (1955)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	1 May 2015
Nationality	Dutch
Other positions	Member of the Supervisory Board of Royal Ahold Delhaize NV, member of the Supervisory Board of Wolters Kluwer NV, Chairman of the Supervisory Board of Royal Theatre Carré, Chairman of the Executive Board of the African Parks Foundation, Chairman of the Executive Board of the National Fund 4 and 5 May Foundation

Angelique (A.A.M.) Huijben-Pijnenburg (1968)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	15 December 2010
Nationality	Dutch
Profession	Dairy Farmer
Other positions	None

Jan (J.P.C.) Keijsers (1955)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	31 December 2008
Nationality	Dutch
Profession	Dairy Farmer
Other positions	None

Gjalt (G.) Mulder (1970)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016
Nationality	Dutch
Profession	Dairy Farmer
Other positions	Member of the AB Fryslân and Noord-Holland Members' Council

Hans (H.) Stöcker (1964)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V., member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	14 December 2011
Nationality	German
Profession	Dairy Farmer
Other positions	Chairman of the Landesvereinigung Milch NRW, Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW, member of the Kreisstelle Oberberg der Landwirtschaftskammer NRW, member of the Landschaftsbeirat Oberbergischer Kreis, member of the Aufsichtsrat Raiffeisenerzeugergenossenschaft Bergisch Land, Chairman of the 'Milch und Kultur Rheinland und Westfalen' association

Ben (B.) van der Veer (1951)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	1 October 2009
Nationality	Dutch
Other positions	Non-executive Director of RELX PLC and N.V., member of the Supervisory Board of Aegon N.V., member of the Supervisory Board of TomTom N.V.

Remuneration and Appointment Committee
Peter Elverding, Chairman
Frans Keurentjes
Jan Keijsers

Audit Committee
Ben van der Veer, Chairman
René Hooft Graafland
Sandra Addink-Berendsen
Angelique Huijben-Pijnenburg

Executive Board

The Executive Board members

The Supervisory Board of Royal FrieslandCampina N.V. appointed Tine Snels as a member of the Executive Board effective 1 June 2016. She serves as the Chief Operating Officer in the Executive Board and is responsible for the FrieslandCampina Ingredients business group. Tine Snels was responsible for the FrieslandCampina Ingredients business group as its Executive Director since 1 June 2015.

Roel van Neerbos was appointed as a member of the Executive Board effective 1 January 2017. As Chief Operating Officer on the Executive Board, he is responsible for the Consumer Products Europe, Middle East & Africa business group. Roel van Neerbos succeeds Gregory Sklikas who left FrieslandCampina as of 31 December 2016.

Roelof (R.A.) Joosten (1958)

Position	Chief Executive Officer
Appointment	1 June 2015, member of the Executive Board since 1 January 2012
Nationality	Dutch
Responsible for:	Cooperative Affairs, Corporate Communication, Corporate Human Resources, Corporate Legal Department & Company Secretariat, Corporate Internal Audit, Corporate Public & Quality Affairs, Corporate Research & Development, Corporate Strategy, Corporate Sustainability, Global Categories, Consumer Products China Business Group
Other positions	Chairman of the Board of the Dutch Dairy Association (NZO), member of the Executive Board of the Confederation of Netherlands Industry and Employers (VNO-NCW)

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

Position	Chief Financial Officer (CFO)
Appointment	1 September 2014
Nationality	Dutch
Responsible for:	Corporate Finance & Reporting, Corporate ICT, Corporate Internal Audit, Corporate Mergers & Acquisitions, Corporate Procurement, Corporate Real Estate, Corporate Risk Management, Corporate Supply Chain, Corporate Tax, Corporate Treasury, Summit
Other positions	Member of the Supervisory Board of the TIAS School for Business & Society

Bas (S.G.) van den Berg (1968)

Position	Chief operating officer
Appointment	1 November 2015
Nationality	Dutch
Responsible for:	Cheese, Butter & Milkpowder Business Group, Milk Valorisation & Allocation
Other positions	Member of the Executive Board of the Confederation of Netherlands Industry and Employers (VNO-NCW), Chairman of the Dutch Food Industry Federation (FNLI), member of the Supervisory Board of CSK Food Enrichment

Piet (P.J.) Hilarides (1964)

Position	Chief Operating Officer
Appointment	1 January 2009
Nationality	Dutch
Responsible for:	Consumer Products Asia Business Group

Roel (R.F.) van Neerbos (1959)

Position	Chief Operating Officer
Appointment	1 January 2017
Nationality	Dutch
Responsible for:	Consumer Products Europe, Middle East & Africa Business Group

Tine (M.A.K.) Snels (1969)

Position	Chief Operating Officer
Appointment	1 June 2016
Nationality	Belgian
Responsible for:	Ingredients Business Group, Corporate Key Account Management

Corporate staff

Robbert (R.J.) Brakel	Global Director Summit
Werner (W.S.J.M.) Buck	Corporate Director Public & Quality Affairs
Ramon (R.M.H.K.) van Deventer	Corporate Director Internal Audit
Jeroen (J.H.W.) Elfers	Director Cooperative Affairs
Jeroen (J.J.H.) Fey	Corporate Director Milk Valorisation & Allocation
Daniëlle (D.) Jansen Heijtmajer	Global Process Director Finance & Shared Services, ERM and CIC
Hans (J.) van Hout	Corporate Director Tax
Margrethe (M.J.) Jonkman	Corporate Director Research & Development
Johan (J.H.A.) Keerberg	Corporate Director Supply Chain
Heidi (H.) van der Kooij	Corporate Director General Counsel & Company Secretary
Aniruddha (A.S.) Kusurkar	Corporate Director Strategy
Hans (J.P.F.) Laarakker	Corporate Director Mergers & Acquisitions
Erwin (W.F.F.) Logt	Corporate Director ICT
Frank (F.A.C.) van Ooijen	Corporate Director Sustainability
Klaas (K.A.) Springer	Corporate Director Treasury
Aart Jan (A.J.) van Triest	Global Director Categories
Marco (M.C.) van Veen	Corporate Director Finance & Reporting
Jaap (J.C.) de Vries	Corporate Director Human Resources
Debbie (D.M.L.) de Wagenaar	Corporate Director Communication
Berend (B.M.) van Wel	Global Director Procurement

Business groups and adresses

FrieslandCampina Consumer Products Europe, Middle East & Africa

The Consumer Products Europe, Middle East & Africa business group provides consumers and professional buyers in Europe, the Middle East, North Africa & West Africa with dairy products, such as dairy-based beverages, yoghurts, desserts, infant nutrition, butter and branded cheese. In the Netherlands and Belgium, the business group also sells fruit juices, fruit drinks and sports drinks. The business group operates in 17 countries (The Netherlands, Belgium, Germany, France, Russia, Hungary, Romania, Greece, Spain, Italy, United Kingdom, Saudi Arabia, United Arab Emirates, Egypt, Nigeria, Ghana and the Ivory Coast).

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FrieslandCampina Branded Netherlands
Managing Director:
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FrieslandCampina Germany
Managing Director:
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FrieslandCampina Hellas
Managing Director:
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FrieslandCampina Hungary
Managing Director:
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FrieslandCampina Romania
Managing Director:
Corneliu (C.) Caramizaru
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FrieslandCampina Russia
Managing Director:
Jan Willem (J.W.) Kivits
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FrieslandCampina Branded Belgium
General Manager:
Jan-Pieter (J.P.) Tanis
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FrieslandCampina Foodservice Europe
Managing Director:
Karl (C.G.F.) Buiks
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FrieslandCampina UK
Managing Director:
Gavin (G.J.) Blair
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FrieslandCampina Retail Brands Europe
Managing Director:
Tuncay (T.) Özgüner
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FrieslandCampina Middle East
Managing Director:
Bas (B.A.A.) Roelofs
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FrieslandCampina WAMCO Nigeria
Managing Director:
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FrieslandCampina Africa
Managing Director:
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FrieslandCampina West Africa
Director Business Development
West Africa:
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FrieslandCampina North Africa
Market Development Director
North Africa:
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FrieslandCampina Consumer Products Asia

The Consumer Products Asia business group provides consumers in Asia with dairy products, such as infant nutrition and dairy-based beverages. The business group operates in nine countries in Asia (Philippines, Hong Kong, Indonesia, Malaysia, Myanmar, Pakistan, Singapore, Thailand, Vietnam). Many products are produced locally. A number of products, such as Friso infant nutrition, is exported from the Netherlands to Asia.

Chief Operating Officer:
Piet (P.J.) Hilarides
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Alaska Milk Corporation

Managing Director:
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Engro Foods

CEO (ad interim):
Hans (J.P.F.) Laarakker
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FrieslandCampina Hong Kong

Managing Director:
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FrieslandCampina Indonesia

Managing Director:
Maurits (E.M.) Klavert
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FrieslandCampina Malaysia

Managing Director:
Chooi Lee (C.L.) Saw
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FrieslandCampina Myanmar

Managing Director:
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Hlaing Township, Yangon
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FrieslandCampina Singapore

General Manager:
Lies (L.) Ellison-Davis (ad interim)
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FrieslandCampina Thailand

Managing Director:
Marco (M.G.) Bertacca
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FrieslandCampina Vietnam

Managing Director:
Arnoud (A.) van den Berg
Binh Hoa Ward
Thuan An Town
Binh Duong Province
Vietnam
T +84 65 03754 420

FrieslandCampina Consumer Products China

The Consumer Products China business group provides consumers in China with infant nutrition, dairy-based beverages and food service products. Effective from 1 January 2016, it became an independent business group. Prior to this it was part of the Consumer Products Asia business group.

FrieslandCampina China (Shanghai)
Executive Director:
Rahul (R.) Colaco
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China
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Friesland Huishan Dairy
Managing Director:
Leon (L.) Coolen
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FrieslandCampina Cheese, Butter & Milkpowder

The Cheese, Butter & Milkpowder business group sells cheese, mozzarella, condensed milk, infant nutrition, butter and milk powder throughout the world. The portfolio consists of a broad range of Dutch types of cheese, such Gouda, Edam, Maasdam and foil cheese, in the form of whole cheeses, as well as packaged wedges and slices, different types of butter and milk powders. The business group has branch offices in six countries (The Netherlands, Germany, Belgium, France, Italy and Spain) and exports to more than 100 countries.

Chief Operating Officer:
Bas (S.G.) van den Berg
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FrieslandCampina Cheese, Butter & Milkpowder B2B
Managing Director:
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FrieslandCampina Cheese & Butter Retail Europe
Managing Director:
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FrieslandCampina Cheese Germany
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FrieslandCampina Cheese France
General Manager Operations:
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FrieslandCampina Ingredients

The Ingredients business group develops nutritional and functional ingredients that add value to existing products. The business group throughout the world supplies natural ingredients based on milk, cheese whey and plant-based raw materials to industrial buyers in the infant nutrition sector, the food sector, the pharmaceutical industry and the young animal nutrition sector. The Ingredients business group has branch offices in eleven countries (The Netherlands, Germany, United States, Indonesia, China, Singapore, Japan, Brazil, Egypt, New Zealand and India).

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FrieslandCampina
nourishing by nature

Every day Royal FrieslandCampina provides millions of consumers all over the world with dairy products that are rich in valuable nutrients from milk. With annual revenue of 11.0 billion euros, FrieslandCampina is one of the world's largest dairy companies.

FrieslandCampina produces and sells consumer products such as dairy-based beverages, infant nutrition, cheese and desserts in many European countries, in Asia and in Africa via its own subsidiaries. Dairy products are also exported worldwide from the Netherlands. In addition, products are supplied to professional customers, including cream and butter products to bakeries and catering companies in West Europe. FrieslandCampina sells ingredients and half-finished products to manufacturers of infant nutrition, the food industry and the pharmaceutical sector around the world.

FrieslandCampina has branch offices in 33 countries and employs just under 22,000 people. FrieslandCampina's products find their way to more than 100 countries. The Company's central office is based in Amersfoort, the Netherlands.

FrieslandCampina's activities are divided into five market-oriented business groups: Consumer Products Europe, Middle East & Africa; Consumer Products Asia; Consumer Products China; Cheese, Butter & Milkpowder and Ingredients.

The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A., with 18,900 member dairy farmers in the Netherlands, Germany and Belgium one of the world's largest dairy cooperatives.

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