



**FrieslandCampina**   
nourishing by nature



# Annual Report 2018

Royal FrieslandCampina N.V.

## Introduction

This integrated Annual Report of Royal FrieslandCampina N.V. sets out the financial results and the developments and results relating to sustainability and value creation over 2018. The Annual Report is drawn up as at 31 December 2018. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (EU-IFRS) and, where applicable, in accordance with Part 9 Book 2 of the Dutch Civil Code. This report is prepared in compliance with the Global Reporting Initiative (GRI) Standards, Core application level, and the internally used criteria for non-financial KPIs.

The 2018 milk price that the members of Zuivelcoöperatie FrieslandCampina U.A. received for the milk they supplied was determined by the FrieslandCampina 2017-2019 milk price regulation. All amounts in this Annual Report are in euros unless stated otherwise.

In addition to the Annual Report, Royal FrieslandCampina N.V. also publishes an 'Annual Magazine'. This magazine provides more accessible insight into the key developments and results over 2018. The structure of this Annual Report is more extensive and complies with statutory requirements, including current corporate governance rules.

For more information about FrieslandCampina's developments and results, visit [www.frieslandcampina.com](http://www.frieslandcampina.com). This Annual Report is a translation of the Dutch version.

In case of discrepancies between these versions, the Dutch text prevails. The Annual Report and the Annual Magazine of Royal FrieslandCampina N.V. are also available on its website [www.frieslandcampina.com](http://www.frieslandcampina.com).

## The following terms, among others, are used in this Annual Report:

- Royal FrieslandCampina N.V.  
(the 'Company' or 'FrieslandCampina')
- Zuivelcoöperatie FrieslandCampina U.A.  
(the 'Cooperative')
- Supervisory Board of the Company  
(the 'Supervisory Board')
- Executive Board of the Company  
(the 'Executive Board')

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# Foreword

Dear Reader,

This Annual Report provides you with an overview of the results of Royal FrieslandCampina N.V. for 2018. FrieslandCampina for the first time is reporting its results in integrated form. This means that we have combined the financial results and our results relating to sustainability in this Annual Report. This method of reporting shows that sustainability is embedded in the Company's business operations and on member dairy farms. Consumers and customers throughout the world are becoming increasingly aware when it comes to purchasing sustainably produced foods or ingredients. The production of dairy places a burden on nature and the environment; in view of the future of our sector it is crucial that we limit this impact.

## Change

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

## Lower result

Last year, the FrieslandCampina milk price was 37.43 euros per 100 kilos of milk. This is inclusive of the guaranteed price, the performance premium, the issue of member bonds and other supplements. A guaranteed price of 36.05 euros per 100 kilos of milk was paid. The guaranteed price is the base amount FrieslandCampina pays its member dairy farmers per 100 kilos of milk. That price was 5.0 percent lower than in 2017. The value creation (combined performance premium and issue of member bonds) amounted to 0.59 euro per 100 kilos of milk, a 55.6 percent decline due to the lower operating profit.

This lower operating profit, compared to 2017, was in part caused by an additional loss of over 100 million euro on basic dairy products. This was caused by the low basic dairy prices in comparison to the guaranteed price, especially in the first half of 2018. While butter quotations and cheese prices recovered in the second half of the year, they came under renewed pressure in the fourth quarter due to a decrease in milk fat quotations. We were also adversely affected by the increased competition on the infant nutrition market in China and Hong Kong. By making additional investments in innovation, marketing, sales and distribution, FrieslandCampina managed to maintain its market positions in China and Hong Kong. The costs for the Company's restructuring and the incidental costs relating to the announced closures of production facilities reduced the result by approximately 50 million euros. The level of value creation was less than satisfactory; however, in 2018, we created the conditions needed for achieving better results. For example, last year we managed to realise 85 million euros in cost savings.

## Reversal in the second half of 2018

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

## Choices

During the past year, the Company's and the Cooperative's strategy converged and are a seamless fit. The focus on sustainability, the anticipation of market demand by making use of different milk streams and balanced growth make it possible to successfully create value over the long term.

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

**Hein Schumacher**

CEO Royal FrieslandCampina N.V.

# Key figures

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

<sup>1</sup> Excluding VAT at 3.47% protein, 4.41% fat and 4.51% lactose.

<sup>2</sup> The sharp increase in the total number of trained local farmers in DDP countries is due to the inclusion of training programmes carried out in Pakistan and Romania, and a one-year project in Nigeria.

# About FrieslandCampina

## This is FrieslandCampina

**Royal FrieslandCampina N.V. processes the milk of dairy farms, whose owners are member of Zuivelcoöperatie FrieslandCampina U.A., into a wide assortment of dairy products. Together with member dairy farmers, FrieslandCampina manages the complete production chain: from grass to glass.**

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

FrieslandCampina is one of the largest dairy companies in the world with a cooperative tradition going back almost 150 years. In 2018, 12,104 member dairy farms supplied approximately 10.4 billion kilos of milk. Furthermore, 1.4 billion kilos of milk were purchased from third parties. FrieslandCampina has branches in 34 countries and exports to more than 100 countries throughout the world.

### Company and Cooperative

The 18,261 member dairy farmers in the Netherlands, Germany and Belgium own 100 percent of Royal FrieslandCampina N.V. through Zuivelcoöperatie FrieslandCampina U.A. All member dairy farmers are independent entrepreneurs.

FrieslandCampina employs 23,769 employees. Since 2018, the Company has been organised into four market-oriented business groups:

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

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

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

**Dairy Essentials** | produces and sells Dutch cheeses, such as Gouda, Edam and Maasdam, and a wide range of foreign cheeses, different types of butter and milk powders for professional and industrial customers. The business group is responsible for allocating all incoming milk and for valorising large volumes of milk at the lowest possible cost and with the highest possible return.

### Brands - for consumers and customers

#### Top 10 consumer brands by revenue in euros

- 1 Friso – worldwide
- 2 Frisian Flag – Indonesia
- 3 Dutch Lady – Asia
- 4 Campina – Netherlands and Belgium
- 5 Peak – Nigeria
- 6 Debic – Foodservice
- 7 Alaska – Philippines
- 8 Foremost – Thailand
- 9 Rainbow – Middle East
- 10 Landliebe – Germany and Eastern Europe

#### Top 5 industrial products by revenue in euros

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

## Nourishing by nature

**FrieslandCampina's purpose *nourishing by nature* stands for better nutrition for the world's consumers, a good living for our farmers, now and for the generations to come. We are focused on the world of today, although our outlook is also focused on the long-term. And *nourishing by nature* always is the central theme in this regard. The purpose is in line with the Sustainable Development Goals of the United Nations.**

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

Contribution to the Sustainable Development Goals



| Nourishing by nature             | Contribution to SDG     |
|----------------------------------|-------------------------|
| Better nutrition                 | 2, 3 and 17             |
| A good living for our farmers    | 1, 2, 5, 8, 12 and 17   |
| Now and for genera-tions to come | 6, 7, 12, 13, 15 and 17 |

### Better nutrition

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

### A good living for our farmers

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

### Now and for generations to come

FrieslandCampina is working on reducing the ecological footprint of the dairy farming sector, retaining pasture grazing, continuously improving animal health and animal welfare, and preserving biodiversity. The aim is to reduce the use of scarce natural resources such as water, raw materials and fossil fuels. FrieslandCampina aims to keep the emission of greenhouse gases in 2020 equal to 2010 levels. This also applies in case of an increase in milk production. This includes the greenhouse gases released at member dairy farms, during transport from the farm to production facilities and when the dairy is processed at the production facilities. To achieve this climate-neutral growth, FrieslandCampina is working on creating an efficient and sustainable production chain. As part of the Climate Agreement, FrieslandCampina is working together with other stakeholders in the dairy sector to achieve the sector's target of reducing a total of 1.6 megatonnes of greenhouse gases in 2030. Furthermore, FrieslandCampina aims to reduce water consumption at production facilities. The measures in 2018 were focused on countries with water scarcity. As of 2019, the measures will be focused on all sites throughout the world and the Company will be targeting a 3 percent reduction.

In addition, the Company encourages member dairy farmers to start working with the Biodiversity Monitor's climate, life cycle management and nature indicators on their farm, and also encourages pasture grazing. FrieslandCampina's results and objectives are in line with SDG 6, 7, 12, 13, 15 and 17.

# Our Purpose, Our Plan

**FrieslandCampina determines its strategic objectives on the basis of its purpose *nourishing by nature*. In 2018, the strategy was refined and set out in *Our Purpose, Our Plan*.**

The strategy is founded on the following four core themes:

- **Win with nutrition**

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

- infant & toddler nutrition in China, Hong Kong and Southeast Asia;
- healthy ageing and performance & lifestyle nutrition;
- ingredients for early life and adult nutrition.

- **Serve the 24/7 consumer and customer**

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

- commercial rigour and digital agility;
- special attention for Foodservice activities and global accounts.

- **Lead with sustainability**

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

- foster *nourishing by nature* brands;
- drive the integrated sustainability agenda.

- **Elevate our essentials**

We will make a step change in our approach towards essential dairy products. We will build profitable branded and unbranded cheese positions to shift milk away from unprofitable products. We will also increase our milk processing flexibility to enable us to create products that offer new opportunities in the market. This means that we are pursuing the following goals:

- excel in commodity management;
- build a profitable cheese business;
- create robust milk processing flexibility.

## Ambitions

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

- to achieve the highest possible performance price for our member dairy farmers so as to ensure them of a good income;
- to achieve organic growth in added value products by 2 percent per year;
- to increase the gross profit margin by at least 1 percentage point per year;
- to realise eight of our ten sustainability targets (see below);
- to increase the return on invested capital by at least 1 percentage point per year.

## 2020 Sustainability Targets

|    |                                                                                                     |
|----|-----------------------------------------------------------------------------------------------------|
| 1  | 70 percent of the consumer products complies with the FrieslandCampina Global Nutritional Standards |
| 2  | trained 14,744 local dairy farms in Dairy Development Programme countries                           |
| 3  | Greenhouse emissions on member dairy farms are 10,976 kt CO <sub>2</sub> equivalent                 |
| 4  | Greenhouse gas emissions for transport and production are 1,331 kt CO <sub>2</sub> equivalent       |
| 5  | Energy consumption of 2.60 GJ/tonne per tonne of end product                                        |
| 6  | 100 percent of agricultural raw materials and paper packaging originate from sustainable sources    |
| 7  | Production facilities use 100 percent green electricity                                             |
| 8  | 81.2 percent (partial) pasture grazing                                                              |
| 9  | Responsible antibiotics use with the SDa target value of <6 DDD/y as the guideline                  |
| 10 | Total number of registered accidents per 200,000 hours worked is ≤0.4                               |

### Enablers

A number of enablers and supporting programmes are needed to realise the ambitions of *Our Purpose, Our Plan*:

- Accelerate innovation - be the first to address customer and consumer needs, focussing on nutrition, with new ways of working.
- Improve supply chain performance - with the Unlock Supply Chain programme and with the input of employees the supply chain will be further improved, costs will be reduced and our agility will be increased.
- Create a winning organisation through means of our purpose, performance and our own people.
- Focus on costs - reduce costs where possible, implement the Focus on Reducing Costs Everywhere (FORCE) programme.
- Realise digital acceleration with consumers and customers.
- Focus on partnerships and possible acquisitions.

### Foundation

To successfully implement its plans, FrieslandCampina builds on the following foundations: *safety* of employees; *quality* of products; the *Compass* Code of Conduct; and a *winners' mindset* of our employees, driven by our purpose, commercially obsessed and with an owner's mindset.

# The dairy sector in 2018

**Developments and trends in the global dairy sector affect FrieslandCampina's results and determine the Company's future choices. The key developments in 2018 are highlighted below, next to several global consumer trends that influence FrieslandCampina's strategy are also shown.**

## Milk production

Due to shrinking margins and adverse weather conditions in the world's key export regions in the first half of 2018, there was a limited increase in the supply of raw milk.

## Netherlands

In 2018, the supply of raw milk in the Netherlands declined by 3 percent to 13.9 billion kilos in comparison to 2017. Dry weather in 2018, the effects of the phosphate reduction plan in 2017 – including a purchase and business cessation scheme – and the implementation of the system of phosphate rights as of 1 January 2018, were the key reasons why the milk supply in the Netherlands slightly lagged that of other European countries.

## Europe

Due to the drought, the growth in the supply of milk in Europe was constrained. In 2018, the milk supply within the European Union rose by approximately 1 percent.

## Rest of the world

In the United States, the growth in milk supply was roughly equal to that in Europe. In New Zealand, milk production experienced a growth spurt at the end of the year and, as a result, overall milk supply was over 2 percent higher in comparison to 2017.

## Basic dairy market trends

There was a balanced market trend over all of 2018. Globally, the demand for dairy products slightly exceeded production; a shortage was avoided by drawing down on stocks.

## Milk prices

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

## Milk powder from intervention stocks

To support the sector in 2015 at a time when the price and sale of milk declined drastically, the European Commission purchased skimmed milk powder. This was done at a fixed intervention price of almost 1,700 euros per tonne. At the beginning of 2018, 380,000 tonnes of skimmed milk powder were held in storage. In 2018, Brussels sold 280,000 tonnes of skimmed milk powder. However, prices were below the intervention level: between 1,050 and 1,450 euros per tonne. As such the intervention stocks dropped to approximately 100,000 tonnes at year-end 2018.

## Butter

Butter supply was lagging at the beginning of this year. This made it possible for prices to rise to close to 6,000 euros per tonne during this period. As the year progressed, production increased, as a result of which price levels dropped to approximately 4,000 euros per tonne. Nevertheless, from a historical perspective this is still considered a high price for butter.

## Cheese

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

### Consumer market trends

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

Consumer behaviour throughout the world is changing. Consumers are increasingly demanding healthy and nutritional products. Furthermore, consumers maintain increasingly fewer traditional meal times. Dairy is increasingly more often consumed at other moments in the day. The online sale of food is becoming increasingly more important. Furthermore, consumers are placing higher demands on the food's origin and method of production.

### Healthy nutrition

Nowadays, consumers are more consciously opting for food that contributes to a healthy lifestyle. Milk naturally contains important nutrients, such as protein and calcium, and as such forms part of a healthy nutritional diet. We are seeing new dairy variations and more and more plant-based products presented as dairy substitutes alongside traditional dairy products. This has changed the position of traditional dairy on retail shelves.

### 24/7 consumer

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

In Asia, Africa and the Middle East a shift is also taking place in the consumption of traditional dairy products, such as condensed milk and milk powder. These products are being displaced by ready-to-drink varieties, particularly in countries with strong economic growth. In addition to tea and coffee, condensed milk is increasingly more often used in sauces and soups. At the same time there is an increasing demand for cheese for out-of-home consumption through the emergence of western-oriented fast food chains.

### Products with increased sustainability

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

# Report of the Executive Board

## FrieslandCampina in 2018

### Developments and results

## Year of transformation: new organisation structure and strategy with a focus on market and sustainability

- New organisation structure with increased commercial strength and a new strategy with a greater focus on market and sustainability.
- Revenue declined by 4.6 percent to 11.6 billion euros. This is primarily due to currency translation effects and the sale of Riedel at year-end 2017.
- Profit decreased by 10.6 percent to 203 million euros, primarily due to lower basic dairy revenues, competition on infant nutrition in Hong Kong and China, incidental costs resulting from the restructuring and transformation costs.
- The cash flow from operating activities increased by 201 million to 619 million euros due to improved working capital.
- The milk price for member dairy farmers decreased by 6.4 percent to 37.43 euros per 100 kilos of milk.
- Important steps were made in terms of sustainability: in Europe, the Company is making 100 percent use of green electricity (this represents 90 percent of the global electricity consumption); total greenhouse emissions (Company and members) declined by 5.1 percent; the share of raw materials purchased from sustainably managed sources increased to 77 percent.
- Sustainable Campina dairy with the 'On the way to PlanetProof' label available in shops.

#### More commercial strength

2018 was a transition year for the Company. Royal FrieslandCampina N.V. started operating with a new business structure on 1 January 2018. Four globally organised business groups – Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials (see page 6) – provide for faster decision-making and greater entrepreneurship, and as such improve the Company's commercial strength.

To strengthen the Company, investments were made in business process improvements and non-profitable activities were reviewed. More than four hundred corporate positions were relocated to the business groups, and consequently moved closer to the market. In addition, management was partly replaced. The transformation was drastic, but necessary to enable FrieslandCampina to once again 'win in the market'. The majority of employees is of the opinion that the right measures were implemented. This is evident from a survey conducted at the end of 2018, with an 85-percent employee participation rate.

#### Lead with sustainability and elevate our essentials

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

## 2018 Results

### Better nutrition

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

#### Balance and composition of product range

Milk naturally contains important nutrients, such as protein and calcium. According to the World Health Organization (WHO), it is important to limit the intake of sugar, salt and fat in the fight against diseases of affluence (obesity and nutrition-related diseases). FrieslandCampina aims to lower the concentration of these nutrients in its products. The criteria for trans-fat, saturated fat, added sugar and salt are derived from the requirements of [Choices International](#), developed by independent scientists.

In 2015, sugar reduction agreements covering a period of three years were reached among dairy producers and retailers in the Netherlands. These agreements are set out in the [Improved Product Composition Agreement](#) (AVP). An audit has demonstrated that FrieslandCampina complies with these agreements. The AVP is currently working on formulating a new agreement for further sugar reduction for the Dutch market.

The [FrieslandCampina Global Nutritional Standards](#) are scientific nutritional criteria that the Company's own consumer products are expected to comply with. FrieslandCampina's aim is to have at least 70 percent of its products (on the basis of sales volume) comply with these criteria by 2020. In 2018, the percentage increased to 66 percent (2017: 64 percent).

Aside from its own scientific nutritional criteria, FrieslandCampina aims for a product portfolio with a good balance between 'basic nutritional products for daily consumption' and 'self-indulgent products for occasional consumption'. The objective is to achieve a proportion of at least 70 percent 'basic nutritional products for daily consumption' and a maximum of 30 percent 'self-indulgent products for occasional consumption'. In 2018, the percentage 'basic nutritional products for daily consumption' was 80 percent (2017: 81 percent).

#### Innovation

Production processes that use less energy; the development of sustainable packaging; creating insight into solutions for lowering the ecological footprint of the dairy farming sector: employees at the FrieslandCampina Innovation

Centre in Wageningen are making a key contribution to creating a sustainable dairy chain. In addition, they work together with business group employees on new products or product variations: with the best possible match to consumer and customer wishes and needs. The areas of focus in the new Company strategy are key in this regard.

The innovation process will be as much as possible accelerated: this past year a great deal of attention was paid to on shortening the lead time required to bring a product to market. In 2017, the Milkubator – an innovation platform that makes it possible to bring relatively small-scale innovations faster to the market – was initiated. A number of these innovations has since been included in FrieslandCampina's product portfolio and the innovation process is being accelerated.

All kinds of different ways to accelerate the innovation process are also assessed for investigations that require a longer lead time. 'Open innovation' plays an important role in this and involves cooperation with various knowledge institutes and other organisations.

At FrieslandCampina experts are working in the field of nutrition, milk components, process technology, products, packaging, sustainability and dairy farming. Thanks to its knowledge and expertise FrieslandCampina is able to improve and renew the supply chain continuously. In 2018, FrieslandCampina invested 80 million euros in its research & development activities.

#### Key product innovations in 2018

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

#### Foqus: quality and food safety

Safety and quality are important criteria for consumers in choosing food. FrieslandCampina uses a standard quality system (Foqus) to safeguard safety and quality throughout the entire chain, from livestock farming to distribution. Foqus offers consumers, customers and governments the guarantee that products and production processes comply with the strict quality and safety criteria. An essential aspect of this quality system is the inspection of products and processes. These inspections form an

indispensable part of the production process: this is how the microbiological quality, hygiene and composition of products are controlled. FrieslandCampina not only has its inspection teams, but also makes use of independent external bodies. Thanks to Foqus, FrieslandCampina, for example, complies with a range of national and international regulations and standards for food safety and quality based on the HACCP, ISO 9001 and FSSC 22000 standards. More information: see [website](#).

### Responsible marketing communications and labelling

To eat and drink healthily, adults and children must have access to responsible options. This means that advertising aimed at children up to twelve years of age is only permitted for products that meet strict nutritional criteria, thus stimulating the choice for healthier nutrition. FrieslandCampina complies with codes of conduct in this area, such as the EU Pledge: a voluntary initiative of European food companies about responsible advertising aimed at children (see [website](#)). The goal is that at least 98 percent of all FrieslandCampina TV commercials in the European Union complies with the EU Pledge conditions. In 2018, this was 98.8 percent (2017: 95.6 percent). FrieslandCampina's brand websites are required to meet the EU Pledge commitments 100 percent. In 2018, this was 100 percent (2017: 100 percent). FrieslandCampina provides clear and honest information about nutritional values on its packaging as a means of encouraging consumers to make healthy choices.

### Education about healthy nutritional patterns and sufficient exercise

FrieslandCampina invested in creating awareness of a healthy lifestyle among consumers by making knowledge and resources available. In 2018, the Company in Southeast Asia once again partnered with the Junior National Basketball Association, the worldwide youth basketball programme of the NBA that encourages children to exercise.

In Vietnam, Thailand, Indonesia, Malaysia, Singapore and the Philippines the Drink.Move.BeStrong campaign assisted parents and teachers in creating awareness among children of the need to exercise sufficiently indoors and outdoors, eat responsibly and live a healthy life. Parents and children also received information about healthy nutritional patterns and an active lifestyle, for example through World Milk Day, school milk programmes, Goodness of Dairy campaigns, and the Youth at a Healthy Weight and Everyone Fit at School programmes.

The FrieslandCampina Institute provided nutrition and health professionals information about dairy, nutrition and health on the basis of scientific insights. This was done in various countries and through means of various communication channels, such as the FrieslandCampina Institute's [website](#).

### Access to food

Not everyone has daily access to sufficient nutrients for a healthy life. FrieslandCampina wants to contribute to as many people as possible having access to healthy nutrition, in particular, dairy products. Attention is paid to availability, prices and packaging. For example, in the Netherlands, FrieslandCampina collaborated with Food Banks. In Europe, Asia and Africa this took the form of various school milk programmes. Another example is the introduction of affordable portions of concentrated dairy enriched with vitamins and minerals in the form of 'sachets' that have been available in Nigeria for the past few years. In 2018, FrieslandCampina initiated the second edition of the 'Southeast Asia Nutrition Surveys (SEANUTS II). This scientific research is designed to provide insight into the nutritional status of children in Indonesia, Vietnam, Thailand and Malaysia.

### FrieslandCampina highest gain on the Access to Nutrition Index

Every two years, the Access to Nutrition Index (ATNI) identifies the contribution of global food producers to making better nutrition available.

In 2018, FrieslandCampina rose from eighth position to fourth position and as such had the highest gain on this index. More information: [website](#) ATNI.

| Better nutrition                                                                                                                                         | 2018 | 2017 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|------|------|
| Product composition (products that meet the FrieslandCampina Global Nutritional Standards as a percentage of the total volume of consumer products sold) | 66   | 64   |
| Balanced product supply (basic food products sold as a percentage of the total volume of consumer products sold)                                         | 80   | 81   |

## 2018 Results

### A good living for our farmers

**A key FrieslandCampina goal is to add as much value as possible to milk so as to maximise its contribution to member dairy farmers' incomes and to the continuity of their dairy farms. This value creation becomes evident in the level of the performance premium and the issue of member bonds, which are paid on top of the guaranteed price FrieslandCampina's member dairy farmers receive for their milk. The value creation is dependent on the Company's performance. In addition, the Company supports local dairy farms in Asia, Africa and Eastern Europe in improving their farm management, milk quality and productivity.**

#### Lower company revenue

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

#### Operating profit and profit decline

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

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

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

#### Reversal in the second half of 2018

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

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

#### Results by business group

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

#### Consumer Dairy

- Revenue and volume declined slightly, while the operating profit increased in comparison to 2017.
- Positive volume trends in the Middle East and Africa. Production in Nigeria was brought back up to the level prior to the fire at the production facility in January 2017.
- Small growth in volume in Asia, with the exception of Pakistan, where the volume only recovered over the course of the fourth quarter.
- For reasons of efficiency, the production of whipped cream cans was transferred from Saint-Paul-en-Jarez (France) to Lummen (Belgium).

- To strengthen the Company's position in the sale of Dutch specialty cheeses, the activities of Best Cheese (Netherlands and the United States), Jana Foods (United States) and Millán Vicente (Spain) were acquired.
- Campina Biologisch (Netherlands) launched a line of fresh organic dairy products in new climate-neutral containers made of organic materials that are 100 percent recyclable with a cap and coating made of plastic organic residual materials.
- Campina (Netherlands) introduced a dairy line with the label 'On the way to PlanetProof' with an integrated focus on animal, nature and climate.
- Landliebe (Germany) expanded its product range with quark.
- Lattiz milk foam system was introduced in Germany and France.
- Olper's and Tarang (Pakistan) were re-launched to restore revenue and profitability.

| Results                                                | 2018  | 2017  | Δ%   |
|--------------------------------------------------------|-------|-------|------|
| millions of euros, unless stated otherwise             |       |       |      |
| Revenue                                                | 5,498 | 5,697 | -3.5 |
| Revenue before currency translation effects            | 5,710 | 5,697 | 0.2  |
| Operating profit <sup>1</sup>                          | ▲     |       |      |
| Price effect on revenue <sup>1</sup>                   | ▲     |       |      |
| Volume trend (percentage) <sup>1</sup>                 | -1.2  |       |      |
| Volume-mix effect on revenue (percentage) <sup>1</sup> | 0.0   |       |      |

<sup>1</sup> Compared to 2017

#### Specialised Nutrition

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

| Results                                                | 2018  | 2017  | Δ%   |
|--------------------------------------------------------|-------|-------|------|
| millions of euros, unless stated otherwise             |       |       |      |
| Revenue                                                | 1,247 | 1,301 | -4.2 |
| Revenue before currency translation effects            | 1,292 | 1,301 | -0.7 |
| Operating profit <sup>1</sup>                          | ▼     |       |      |
| Price effect on revenue <sup>1</sup>                   | ▲     |       |      |
| Volume trend (percentage) <sup>1</sup>                 | -2.5  |       |      |
| Volume-mix effect on revenue (percentage) <sup>1</sup> | -1.9  |       |      |

<sup>1</sup> Compared to 2017

#### Ingredients

- Revenue affected by lower raw material prices; only partly charged on to the markets.
- Volume trend stable across entire line. Reduced demand for animal feed and shift of focus within FrieslandCampina Kievit to increasing profitability at the expense of volume.
- Good results in sports nutrition, medical and infant nutrition due to volume and price.
- Disappointing results in supply chain and joint venture DFE Pharma.
- New production facility in Borculo (Netherlands) completes first commercial production runs.
- Global SAP implementation for all commercial, planning & logistics entities of Ingredients in June 2018.

| Results                                                | 2018  | 2017  | Δ%   |
|--------------------------------------------------------|-------|-------|------|
| millions of euros, unless stated otherwise             |       |       |      |
| Revenue                                                | 1,735 | 1,794 | -3.3 |
| Revenue before currency translation effects            | 1,753 | 1,794 | -2.3 |
| Operating profit <sup>1</sup>                          | ▼     |       |      |
| Price effect on revenue <sup>1</sup>                   | ▼     |       |      |
| Volume trend (percentage) <sup>1</sup>                 | 0.4   |       |      |
| Volume-mix effect on revenue (percentage) <sup>1</sup> | 3.4   |       |      |

<sup>1</sup> Compared to 2017

#### Dairy Essentials

- Revenue and operating profit adversely affected by low basic dairy prices in relation to the guaranteed price, particularly in the first and fourth quarter of the year.
- The average sales prices improved in comparison to the market index for basic dairy prices.
- Volume increases were realised in cheese produced in accordance with the non-GMO-standard (Germany), Valess and by the Zijerveld cheese specialist.
- There was a reduction in the need for selling milk on the spot market.

- Cost reduction successfully implemented. Cost levels in the supply chain under pressure, in part due to incidental costs.
- For reasons of efficiency, the cheese packaging activities in Sénas (France) were relocated to Genk (Belgium) and Leerdam (Netherlands), and the Company announced the closure of the mozzarella production facility in Bree (Belgium).
- Processing agreement with DMK Group for the production of mozzarella, to secure further growth in this segment.

| Results                                                | 2018  | 2017  | Δ%   |
|--------------------------------------------------------|-------|-------|------|
| millions of euros, unless stated otherwise             |       |       |      |
| Revenue                                                | 3,060 | 3,226 | -5.1 |
| Operating profit <sup>1</sup>                          | ▼     |       |      |
| Price effect on revenue <sup>1</sup>                   | ▼     |       |      |
| Volume trend (percentage) <sup>1</sup>                 | -4.9  |       |      |
| Volume-mix effect on revenue (percentage) <sup>1</sup> | -1.3  |       |      |

<sup>1</sup> Compared to 2017

### Profit appropriation

Of the 203 million euro profit in 2018, 73 million euros was attributed to non-controlling interests (2017: 31 million euros). The Executive Board proposed to add 74 million euros to the retained earnings (2017: 143 million euros). The remaining profit has been appropriated as follows: 47 million euros is reserved for the interest payment to holders of member bonds (2017: 44 million euros) and 9 million euros is reserved for the interest payment on the Cooperative's loan to the Company (2017: 9 million euros).

### Increase in operating cash flow

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

The cash flow used in financing activities amounted to -101 million euros (2017: -116 million euros). This is the balance of the dividends paid to non-controlling interests, interest for member bonds, the use of the credit facility and the redemption of a contingent consideration. The balance of cash and cash equivalents and bank overdrafts increased from 193 million euros (year-end 2017) to 224 million euros (year-end 2018).

### Strengthening the organisation and its market position

To strengthen the Company, non-profitable activities were reviewed and investments were made in business process improvements. Aside from relocating production activities and announced closures, the activities relating to financial transactions in Europe and Asia where largely brought together in the financial shared services centres in Budapest (Hungary) and Kuala Lumpur (Malaysia). In addition to the acquisitions and a contract manufacturing agreement for the production of mozzarella with the DMK Group, FrieslandCampina acquired the remaining shares in Friesland Huishan Dairy Investments (Hong Kong) Ltd. This operating company produces and sells infant nutrition under the brand name Dutch Lady in China and also produces tea and coffee creamers for Kievit. This acquisition gives FrieslandCampina full control over the former joint venture activities, including the production facility near Shenyang (China).

### Strengthened financial position

The net debt amounted to 1,287 million euros as at 31 December 2018. This represents a 113 million euro decrease in comparison to year-end 2017. The buffer capital (equity attributable to the shareholder) was higher primarily due to the addition of the retained earnings and amounted to 1,304 million euros. As a percentage of the balance sheet total, the buffer capital increased from 14.2 to 14.8 percent.

The equity attributable to the shareholder and other equity providers increased to 3,209 million euros (2017: 3,178 million euros). This was due to the addition of the retained earnings and the issue of member bonds, offset by the currency translation differences of foreign subsidiaries and transactions with holders of non-controlling interests.

Solvency, defined as the equity attributable to the shareholder and other providers of capital as a percentage of the balance sheet total, increased to 36.4 percent (2017: 35.1 percent), in part due to a lower balance sheet total.

As at 31 December 2018, the total equity, including non-controlling interests, amounted to 3,552 million euros (year-end 2017: 3,512 million euros).

The return on the invested capital (operating profit based on the guaranteed price divided by the average invested capital, including goodwill), amounted to 7.6 percent (2017: 10.8 percent). The decrease in comparison to 2017 was due to the lower operating profit.

### Financing

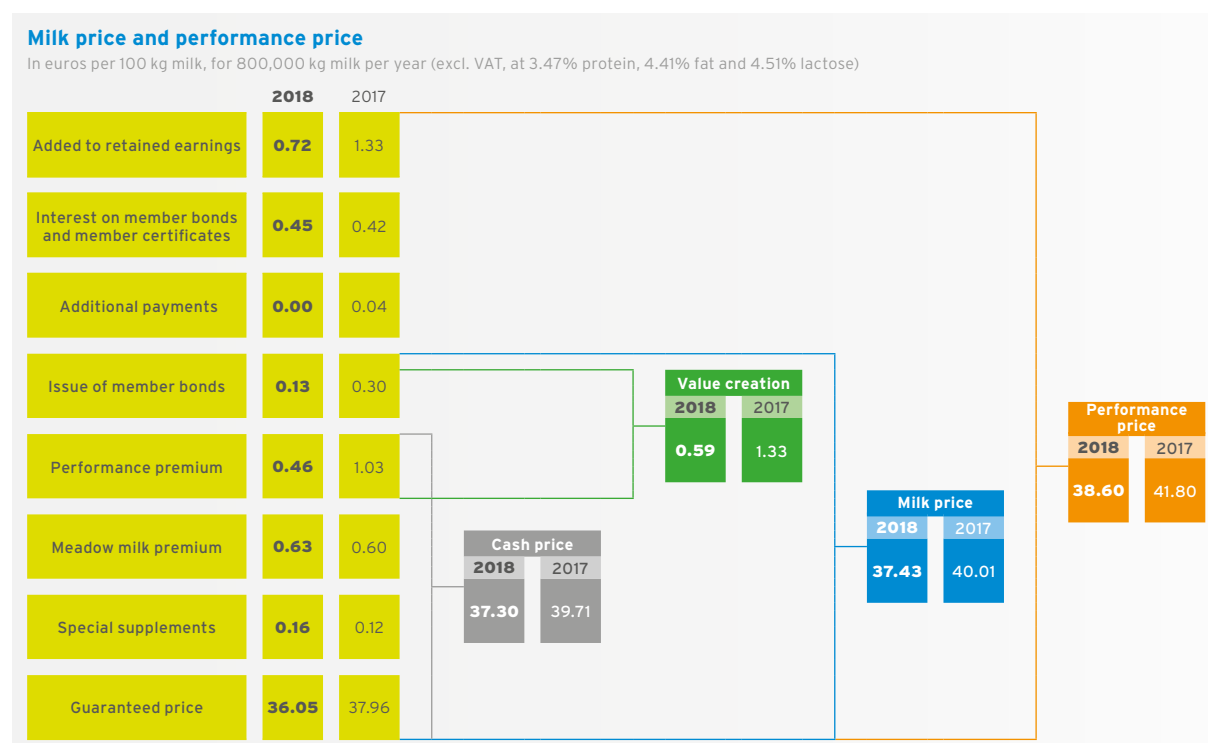
FrieslandCampina made use of loans from member dairy farmers, banks, investors and development banks.

### Value creation declined <sup>1</sup>

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

The FrieslandCampina milk price for member dairy farmers over 2018 decreased by 6.4 percent to 37.43 euros per 100 kilos of milk (2017: 40.01 euros). The FrieslandCampina guaranteed price over 2018 was 36.05 euros per 100 kilos of milk, a decrease of 5.0 percent compared to 2017 (37.96 euros). The decrease in the guaranteed price was the result of lower milk prices of the reference companies. The compensation for special supplements was 0.16 euro (2017: 0.12 euro). Across all forms of milk, the meadow milk premium amounted to 0.63 euro per 100 kilos of milk (2017: 0.60 euro).

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



<sup>1</sup> All specified prices are exclusive of the VAT.

On 1 September 2018, FrieslandCampina distributed an interim payment of 0.41 euro per 100 kilos of milk to member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. This was 75 percent of the pro forma performance premium over the first half-year (0.21 euro per 100 kilos of milk over the entire year). The final settlement will be effected in March 2019, based on FrieslandCampina's results for the year and the quantity of milk supplied by dairy farmers in 2018. The performance premium over 2018 amounted to 0.46 euro per 100 kilos of milk. This means that member dairy farmers will still receive a performance premium of 0.25 euro per 100 kilos of milk.

The total interest paid on member bonds in 2018 rose to 47 million euros (2017: 44 million euros). This was due to the increased number of bonds. The interest rate over the period 1 January to 31 May 2018, was 2.976 percent. The interest rate over the period 1 June to 30 November 2018 was 2.981 percent, while the interest rate in the month of December 2018 was 2.997 percent (the interest rate on the

6-month Euribor for December 2018 was -0.253 percent). The average interest paid per 100 kilos of member milk was 0.45 euro (2017: 0.42 euro).

#### **Decrease in milk supplied by members**

To ensure that phosphate production stays below the phosphate ceiling, effective 1 January 2018, a dairy farm is not permitted to produce more phosphate with dairy cattle kept for commercial purposes than the number of phosphate rights allow. The number of dairy cows in 2018 decreased as a result. Furthermore, the summer was very dry. As a result, in comparison to the previous year, the milk supplied by member dairy farms in 2018 decreased in comparison to last year by 3.2 percent to 10,375 million kilos of milk (2017: 10,716 million kilos of milk).

During the period from 1 January up to and including 30 June 2018, there was no imbalance between the milk supply and processing capacity. As a result, it proved unnecessary to activate the temporary conditional measure previously announced by the Cooperative's Board and the Executive Board.

#### **Balanced Growth**

FrieslandCampina's Members' Council approved proposal for a balanced growth in December. This approval was granted following extensive and in-depth discussions with members throughout the country.

The balanced growth is to result in a balance between supply, processing capacity and demand, and is to contribute to value creation from member dairy farmers. Balanced growth exists when the total supply of raw milk by member dairy farmers grows at the same rate as market demand. The room for growth is determined on the basis of a market-based growth rate that is established for a period of two years each time on the basis of predicted global future growth. For 2019 and 2020, the market-based growth rate has been set at 1.5 percent in relation to the 2017 reference point. In addition, room for growth is created by farms that halt their operations, leave or do not use all of their allocated reference volume. When the collective milk supply rises above the market-based growth, then 10 euro cents per kilo of milk will be withheld on the excess raw milk supplied by individual dairy farms that have exceeded their growth allowance based on their reference volume plus the latent room. For special milk streams, the market-based growth rate may be exceeded when there is a greater demand than the supply of raw milk for that particular milk stream. The regulation went into effect on 1 January 2019.

#### **Dairy Development Programme**

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

In 2018, 80,216 (2017: 20,347) local farmers participated in training programmes in the context of the DDP in Nigeria, Vietnam, Thailand, Malaysia, Indonesia, Pakistan and Romania. The last two countries were included in the figures for the first time this year. The number of local farmers who directly or indirectly formed part of the DDP was more than 250,000. In addition, in 2018, for the second year, FrieslandCampina measured the extent to which dairy farms in DDP countries complied with the Good Dairy Farming Practices of the United Nations Food and Agriculture Organisation (FAO). Of a focus group of 279 dairy farms in Vietnam, Indonesia and Malaysia, and in 2018 for the first time also Thailand, 63 percent scored at least 'good'.

Excluding Thailand, at least 54 percent scored 'good' in 2018. In 2018, a pilot was started up, whereby a group of farmers in Vietnam and Indonesia measured the yield per cow once a month. The average yield per cow, per farmer, per day, currently is 11.1 kilos in Vietnam and 14.4 kilos in Indonesia.

#### **DDP in 2018**

- The subsidiary Frisian Flag Indonesia (FFI), together with a number of partners opened the first Dairy Village in the country. Several Indonesian dairy farmers work together on this modern and sustainable farm.
- The partnership with Agriterra was extended for a period of five years. Agriterra provides advice and trains cooperatives and farmers in developing and emerging countries.
- FrieslandCampina WAMCO announced plans for investing 23 million euros in the Nigerian dairy sector for the purpose of increasing local milk production. Part of the plan involves setting up model farms and milk collection points.
- Engro Foods (Pakistan) won the prestigious Commonwealth Company of the Year Award for the programmes it had organised to strengthen the role of women in the dairy sector.
- This past year, during 23 advisory missions, 16 employees and 17 member dairy farmers from FrieslandCampina provided advisory services to 24 cooperatives, among others, on behalf of FrieslandCampina and its partner organisation Agriterra.

| <b>A good living for our farmers</b>                                                               | <b>2018</b>                | 2017   | <b>Δ%</b> |
|----------------------------------------------------------------------------------------------------|----------------------------|--------|-----------|
| millions of euros, unless stated otherwise                                                         |                            |        |           |
| <b>Results</b>                                                                                     |                            |        |           |
| Revenue                                                                                            | <b>11,553</b>              | 12,110 | -4.6      |
| Revenue before currency translation effects                                                        | <b>11,828</b>              | 12,110 | -2.3      |
| Operating profit                                                                                   | <b>342</b>                 | 444    | -23.0     |
| Operating profit before currency translation effects                                               | <b>361</b>                 | 444    | -18.7     |
| Profit                                                                                             | <b>203</b>                 | 227    | -10.6     |
| Profit before currency translation effects                                                         | <b>209</b>                 | 227    | -7.9      |
| Operating profit as a percentage of revenue                                                        | <b>3.0</b>                 | 3.7    |           |
| <b>Balance sheet</b>                                                                               |                            |        |           |
| Balance sheet total                                                                                | <b>8,822</b>               | 9,046  | -2.5      |
| Equity attributable to the shareholder and other providers of capital                              | <b>3,209</b>               | 3,178  | 1.0       |
| Equity as a percentage of the balance sheet total                                                  | <b>36.4</b>                | 35.1   |           |
| Buffer capital as a percentage of the balance sheet total <sup>1</sup>                             | <b>14.8</b>                | 14.2   |           |
| Net debt <sup>2</sup>                                                                              | <b>1,287</b>               | 1,400  | -8.1      |
| <b>Cash flow</b>                                                                                   |                            |        |           |
| Net cash flow from operating activities                                                            | <b>619</b>                 | 418    | 48.1      |
| Net cash flow used in investment activities                                                        | <b>-490</b>                | -414   | -18.4     |
| Net cash flow used in financing activities                                                         | <b>-101</b>                | -116   | 12.9      |
| <b>Investments</b>                                                                                 | <b>461</b>                 | 531    | -13.2     |
| <b>Member dairy farmers</b>                                                                        |                            |        |           |
| Number of member dairy farms at year-end                                                           | <b>12,104</b>              | 12,707 | -4.7      |
| Number of member dairy farmers at year-end                                                         | <b>18,261</b>              | 18,645 | -2.1      |
| Milk supplied by member dairy farmers (millions of kg)                                             | <b>10,375</b>              | 10,716 | -3.2      |
| Total compensation member dairy farmers                                                            | <b>3,933</b>               | 4,346  | -9.5      |
| <b>Value creation for member dairy farmers</b>                                                     |                            |        |           |
| in euros per 100 kilos of milk (exclusive of VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)   |                            |        |           |
| <b>Guaranteed price</b>                                                                            | <b>36.05</b>               | 37.96  | -5.0      |
| Performance premium                                                                                | <b>0.46</b>                | 1.03   |           |
| Meadow milk premium <sup>3</sup>                                                                   | <b>0.63</b>                | 0.60   |           |
| Special supplements <sup>4</sup>                                                                   | <b>0.16</b>                | 0.12   |           |
| <b>Cash price</b>                                                                                  | <b>37.30</b>               | 39.71  | -6.1      |
| Reservation of member bonds                                                                        | <b>0.13</b>                | 0.30   |           |
| <b>Milk price</b>                                                                                  | <b>37.43</b>               | 40.01  | -6.4      |
| Additional payments                                                                                | <b>0.00</b>                | 0.04   |           |
| Interest on member bonds                                                                           | <b>0.45</b>                | 0.42   |           |
| Retained earnings                                                                                  | <b>0.72</b>                | 1.33   | -45.9     |
| <b>Performance price</b>                                                                           | <b>38.60</b>               | 41.80  | -7.7      |
| <b>Dairy Development Programme</b>                                                                 |                            |        |           |
| (all figures pertain to countries in which the DDP operates)                                       |                            |        |           |
| Local farmers who participated in a training programme (number)                                    | <b>80,216 <sup>5</sup></b> | 20,347 | 294.2     |
| Percentage of farmers who score at least a 'good' on the Good Dairy Farming Practices (GDFP) index | <b>63</b>                  | 54     |           |

<sup>1</sup> Buffer capital is the equity attributable to the shareholder.

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

<sup>3</sup> Dairy farmers applying pasture grazing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2018. An amount of 1.00 euro per 100 kilos of meadow milk is paid from the operating profit. On average, on all FrieslandCampina member milk, this amounted to 0.63 euro per 100 kilos of milk. Furthermore, another 0.50 euro per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euro per 100 kilos of milk is withheld from all milk. This also pays for the partial pasture grazing premium.

<sup>4</sup> Special supplements concern the total amount of payments per 100 kilos of milk, for example for Landliebe milk, of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (47.46 euros) and the guaranteed price (36.05 euros) per 100 kilos of milk. On average, on all FrieslandCampina member milk, this amounts to 0.16 euro per 100 kilos of milk.

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

## 2018 Results

# Now and for generations to come

**FrieslandCampina endeavors to lead with sustainability. This is why the Company has been working together with member dairy farmers for years on reducing its ecological footprint. Reducing energy consumption and CO<sub>2</sub> emissions is part of this. Furthermore, FrieslandCampina encourages the efforts of member dairy farmers in the area of biodiversity and animal well-being. In addition to other incentives, the Company does this by having the premium price it receives for more sustainable dairy products directly benefit the dairy farms that devote effort to animal, nature and environment.**

The introduction of Campina dairy in December 2018 with the 'On the way to PlanetProof' label of the Stichting Milieukeur (Dutch Environmental Quality Label) is an example of the approach used by FrieslandCampina. The Stichting Milieukeur presupposes an integrated approach to making production processes sustainable, with careful consideration of the various sustainability themes. The milk is supplied by member dairy farmers who perform well in relation to the animal well-being, biodiversity and climate themes. The added compensation benefits the members who supply milk for the dairy produced with this label. In addition, a portion of the additional income is used for making member dairy farms sustainable. The 'On the way to PlanetProof' label is being introduced on a phased basis, whereby dairy farms that meet the underlying requirements in the proximity of the production facilities are first to be allowed to participate. Depending on market demand additional member dairy farms will be given the opportunity to participate. The first products derived from this new milk stream have been available in retail coolers since mid-December 2018.

### Reducing the ecological footprint throughout the entire chain

FrieslandCampina endeavours to keep greenhouse gas emissions in 2020 equal or lower in comparison to 2010 (12,307 kt CO<sub>2</sub> equivalent). This includes the greenhouse gases released at member dairy farms, during transport from the farm to and between production facilities, and when the dairy is processed at the production facilities. In 2018, the total emissions from these sources decreased by 5.1 percent to 12,462 kt CO<sub>2</sub> equivalent (2017: 13,136 kt CO<sub>2</sub> equivalent). This decrease was caused by the decrease in emissions per kilo milk, a decrease in the milk volume and the increase in the quantity of sustainably generated electricity (solar panels and wind energy) by member dairy farms. The greenhouse gas emissions for production and transport declined by 8.7 percent to 811 kt

CO<sub>2</sub> equivalent due to a further increase in the use of green electricity.

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

FrieslandCampina's production facilities in Europe have been fully powered by green electricity since 2017. This represents 90 percent of the Company's total worldwide electricity consumption. 28 percent of all green electricity was purchased from member dairy farmers in 2018. Furthermore, two production facilities were added last year that are directly connected to a biosteam or green gas pipeline. In 2018, the production facility in Veghel (Netherlands) shut down two of its gas turbines and partially switched over to green electricity. Once this production facility is fully switched over in May 2019, it will produce 20 percent less CO<sub>2</sub> emissions.

A programme designed to enable FrieslandCampina to reduce its energy consumption by at least 8 percent over a period of four years was initiated in 2017. This among other things includes energy-efficient technological process innovations in Leeuwarden and Gerkesklooster in the Netherlands. As a result of the partial completion of a number of projects, energy consumption stabilised at 2.8 GJ/tonne last year.

Energy-saving measures were also implemented during the expansion or construction of new branches. An example of this is the distribution centre in Meppel (Netherlands), which was commissioned in 2018. The expectation is that, in addition to an increase in efficiency, an annual reduction of 1.5 million transport kilometres can be realised, which amounts to a CO<sub>2</sub> reduction of 0.65 kt CO<sub>2</sub> equivalent. This is due to the favourably selected location in relation to roadways and waterways.

### Reduction of water consumption in production

It is FrieslandCampina's aim to have water consumption per tonne product at production facilities reduced or kept equal to 2010 levels in 2020. The measures taken in this regard are in particular focused on countries with water scarcity in the Middle East, Africa and Asia. The water consumed by the production facilities in these regions dropped by approximately 6 percent in 2018. For example, a new production facility was commissioned in Nigeria that consumes 15 percent less water than in 2016. In view of the increase in periods of drought and desalination, and the impact of water consumption on energy management, FrieslandCampina in 2019 will adopt a global objective of a 2 percent reduction per tonne of water consumption

per year and a 3 percent reduction per year effective from 2020.

#### **Sustainable procurement of agricultural raw materials and packaging**

The responsible procurement of agricultural raw materials and packaging is part of FrieslandCampina's sustainability policy.

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

In 2018, the share of raw materials purchased from sustainably managed sources increased to 77 percent (2017: 55 percent). The purchase of paper packaging from sustainably managed sources rose by 23 percentage points to 93 percent, primarily due to the increased purchase of sustainable corrugated cardboard, whereby effective from 2018, the use of recycled paper as a raw material for producing corrugated cardboard was also counted as sustainable procurement. FrieslandCampina last year introduced a new, innovative cardboard litre container for long-shelf life Chocomel. More than 80 percent of the new container is made from plant-based materials.

The greenhouse gas emissions from the procurement of milk, milk powder and whey from third parties in 2018 decreased by 1.1 percent to 3,822 kt CO<sub>2</sub> equivalent.

#### **More sustainable dairy farms with Foqus planet**

Making the dairy chain sustainable begins on the member dairy farms. Foqus planet is FrieslandCampina's quality and sustainability programme for all member dairy farmers. The programme comprises four themes (farm, cow, feed and milk), each subdivided into three components:

1. Basic requirements: requirements relating to hygiene, milk quality and safety, and animal health and welfare.
2. Pasture grazing: cows grazing in the pasture is part of the (Dutch) cultural landscape and contributes to the sector's visibility. Member dairy farmers receive a premium for full and partial pasture grazing.
3. Sustainable development: six indicators for sustainable farming, such as energy consumption, the cows' health and longer lifespan, and care of the landscape. Members who score high on these themes receive a bonus that is partially funded from a cooperative scheme.

#### **Reducing greenhouse gas emissions on dairy farms**

Approximately 90 percent of the total emission of greenhouse gases in the dairy chain originates on and around the dairy farms. In 2018, a module became available that assists dairy farmers in reducing the emission of greenhouse gases on their farms. Dairy farmers were encouraged to use this module through means of Foqus planet. In 2018, the emission of greenhouse gases on member dairy farms decreased by 4.9 percent to 11,651 kt CO<sub>2</sub> equivalent (2017: 12,248). The average greenhouse gas emission of a Dutch dairy farm was 1.13 kilos of CO<sub>2</sub> equivalent per kilo milk in 2018. This calculation was established by Wageningen Economic Research and FrieslandCampina research & development.

#### **Dairy farms as producers of electricity**

Member dairy farms can play an important role in producing green electricity and reducing greenhouse gases by installing solar panels, windmills or mono-manure digesters.

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

FrieslandCampina encourages the use of mono-manure digesters through means of the Jumpstart Cooperative. The project was started in October 2016. In 2018, eight installations were in operation that achieved an 8 kt reduction in CO<sub>2</sub> emissions. It is expected that the number of installations will grow over the coming years.

### **Lifespan cows**

Proper care of a cow means that the cow lives longer, requires less medicines and produces quality milk. FrieslandCampina together with member dairy farmers aims to continuously improve animal health and animal well-being. One of these aims in recent years was the responsible use of antibiotics. The use of antibiotics in the dairy farming sector is currently at a responsible level. Also see the [annual report of the Netherlands Veterinary Medicines Authority \(SDa\)](#).

Another area for attention is the cow's lifespan. FrieslandCampina encourages member dairy farmers to extend their cows' lifespan by six months by 2020 in comparison to 2011. In 2011, the average lifespan of a cow in the Netherlands was five years, eight months and eleven days. At year-end 2018, the average lifespan was five years, six months and fourteen days. This represents a decrease of eight days in comparison to 2017. The reason for this decline was the mandatory reduction of livestock herd due to the phosphate legislation, whereby not only older cows were culled. It is expected that from 2019 onwards, the lifespan will increase as the effect of the phosphate legislation will be behind us.

A healthy calf can grow into a cow with a longer lifespan. This is why in 2018, FrieslandCampina introduced KalfOK. This programme provides dairy farmers with insight into the quality of their young livestock in comparison to peer dairy farms. In addition, the programme provides assistance in improving the quality of the calf-rearing process.

### **Pasture grazing**

To encourage pasture grazing, member dairy farmers receive a premium on their milk price. In 2018, 81.2 percent of FrieslandCampina's member dairy farmers in the Netherlands practised some form of pasture grazing. The number of dairy farms practicing pasture grazing increased by 303. As such the objective for 2020 has been reached. FrieslandCampina will continue to encourage the use of pasture grazing among its members.

### **Biodiversity**

FrieslandCampina encourages dairy farmers to start working with the Biodiversity Monitor's climate, life cycle management and nature indicators on their farm. In 2018, a campaign was initiated whereby member dairy farmers, on the basis of theme meetings and study groups, were challenged to adjust the farming practices on their dairy farms such that biodiversity increases and the impact on climate decreases. In 2018, 55.6 percent of dairy farmers had insight into the Biodiversity Monitor score on the basis of the Insight into Climate, Life Cycle Management and Nature indicators.

Many member dairy farmers also devote effort to nature and landscape management. In 2018, 69.4 percent of dairy farms practised active nature and landscape management on the basis of a management agreement with a third party or by completing their own declaration. This was 1.5 percent more than in 2017. Not all dairy farmers are in a position to sign management agreements with a third party. This is why FrieslandCampina worked together with BoerenNatuur, a Dutch national organisation that represents all 40 farmer collectives in the Netherlands, on a country-wide system to register and safeguard all of the nature and landscape management areas on dairy farms.

### **Sustainable development through partnerships**

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

### **Sustainable Dairy Chain**

Through means of the Duurzame Zuivelketen ([Sustainable Dairy Chain](#)) FrieslandCampina works together with dairy companies and dairy farmers on a dairy sector that is future-proof and responsible. The Sustainable Dairy Chain has formulated the following theme goals for a future-proof and responsible dairy sector by 2020: climate-neutral development, continuous improvement of animal welfare, retention of pasture grazing, and preservation of biodiversity and the environment. FrieslandCampina has incorporated these goals into Foqus planet. A basic requirement of this programme is the purchase of soy from suppliers that provide RTRS-certified soy or equivalent. In addition, effort is devoted to developing indicators and monitoring systems. Furthermore, resources are made available that assist dairy farmers in making their dairy farms more sustainable.

### International sustainable dairy sector

Dairy producers, including FrieslandCampina, and customers have joined forces for the purpose of developing a global sustainability standard. In 2013, the international dairy sector launched the Dairy Sustainability Framework (DSF) for the purpose of developing an approach with which to demonstrate the sustainability of dairy products in business-to-business relationships. In 2018, pilots were conducted in four regions to test this methodology. Following an evaluation, the methodology will be presented at the end of 2019.

For additional information about FrieslandCampina's partners visit FrieslandCampina's [website](#). The table in Appendix 3 provides an overview of the stakeholders with which FrieslandCampina maintained contact in 2018. This table also includes the type of dialogue, the topics of discussion and the ambitions and actions arising from this.

| Now and for generations to come                                                                                       | 2018   | 2017   | Δ%    |
|-----------------------------------------------------------------------------------------------------------------------|--------|--------|-------|
| <b>Sustainable production</b>                                                                                         |        |        |       |
| Greenhouse gas emissions from production and transport (kt CO <sub>2</sub> equivalent)                                | 811    | 888    | -8.7  |
| Green electricity (percentage of total electricity consumed at production facilities)                                 | 90     | 80     |       |
| Energy consumption (GJ/tonne product)                                                                                 | 2.8    | 2.8    | -     |
| Water consumption (m <sup>3</sup> /tonne end product) <sup>1</sup>                                                    | 3.54   | 3.40   | 4.1   |
| <b>Sustainable procurement of raw materials</b>                                                                       |        |        |       |
| Sustainable agricultural raw materials (percentage of total volume of raw materials)                                  | 77     | 55     |       |
| Greenhouse gas emissions of procurement of milk, milk powder, whey from third parties (kt CO <sub>2</sub> equivalent) | 3,822  | 3,866  | -1.1  |
| <b>Dairy Farming</b>                                                                                                  |        |        |       |
| Greenhouse gas emissions by member dairy farms (kt CO <sub>2</sub> equivalent)                                        | 11,651 | 12,248 | -4.9  |
| Cow's average lifespan (years-months-days)                                                                            | 5-6-14 | 5-6-22 |       |
| Pasture grazing (percentage member dairy farms in the Netherlands applying a form of pasture grazing)                 | 81.2   | 79.4   |       |
| Sustainable soy (share of RTRS-certified soy in feed concentrates for cows as a percentage of the total)              | 100    | 100    |       |
| <b>Attractive employer</b>                                                                                            |        |        |       |
| Percentage of women in management positions                                                                           | 22.7   | 23.1   |       |
| <b>Safety</b>                                                                                                         |        |        |       |
| Accident ratio (number of accidents per 200,000 hours worked) <sup>2</sup>                                            | 0.37   | 0.55   | -32.7 |

<sup>1</sup> The scope is the Middle East, Africa and Asia.

<sup>2</sup> Engro Foods was added to the scope in 2018.

## Our employees

**In 2018, the average number of employees (FTEs) rose by 0.4 percent to 23,769 due to the expansion of production capacity and acquisitions. See Appendix 5 for additional details concerning the workforce, such as distribution by country or type of contract.**

| Number of employees<br>Average number of FTEs | 2018          | 2017          |
|-----------------------------------------------|---------------|---------------|
| Consumer Dairy                                | 13,610        | 13,752        |
| Specialised Nutrition                         | 2,348         | 2,241         |
| Ingredients                                   | 3,248         | 3,060         |
| Dairy Essentials                              | 2,763         | 2,684         |
| Corporate & support                           | 1,800         | 1,938         |
| <b>Total</b>                                  | <b>23,769</b> | <b>23,675</b> |

### Talent management

Focused recruitment, development and retention of talent is crucial for FrieslandCampina to continue to be successful. To increase the Company's appeal on the global labour market, the Company initiated the 'Jobs that Matter' campaign in six countries in 2018. The campaign will be continued in 2019.

With a view to the transformation to a more market-oriented organisation, the Future Leader programme (Dare to Lead) for leadership development, was redesigned. In addition, a new Senior Management Programme was developed, focusing on accelerating the organisational change. This programme will be implemented in 2019.

### Diversity

In 2018, the gender ratio within FrieslandCampina worldwide was 28.0 percent women and 72.0 percent men. FrieslandCampina aims to increase the percentage of women in senior management positions to 30 percent by 2020. In 2018, the percentage of women in senior management positions was 22.7 percent (2017: 23.1 percent). 40 percent of the members of the Executive Leadership Team and 50 percent of the members of the Executive Board are women. Five nationalities are represented among the ten members of the Executive Leadership Team.

### Culture

FrieslandCampina's employees make the difference and contribute to our sustainable success. This is why the Company aims to create a working environment in which employees feel safe and appreciated, and in which they are committed. A working environment that helps them perform

to the best of their ability. Employees are challenged to identify improvements and to act on them. This concerns safety solutions, quality improvements, innovation, entrepreneurship and contributing to sustainability. *Our Purpose, Our Plan* creates focus and inspires everyone to perform in accordance with their abilities for stakeholders and for FrieslandCampina itself.

In 2018, a programme relating to a new working culture was initiated in support of the new organisation structure. It gives priority to 'winning': purpose-driven, commercially obsessed and with an owner's mindset. At year-end 2018, employee perception of the change was measured through means of a worldwide survey, in which 85 percent of employees shared their opinion. The results show that 81 percent of employees is of the opinion that the organisation is implementing the necessary changes.

### Social agenda

A social agenda was developed together with the Central Works Council in 2018. It sets out the direction for developing FrieslandCampina's social policy, its terms and conditions of employment and labour relations.

### Safety

Unfortunately, two fatal accidents occurred in 2018. In January, a security officer in Pakistan died as a result of criminal activity. In December 2018, a construction contractor in the Ivory Coast died due to the collapse of a wall of an adjoining company building.

Safety in the workplace is and remains a key theme at FrieslandCampina.

In 2018, the Company transitioned from reporting 'Lost Time Accidents' (accidents whereby the affected person is unable to come to work the next day) to reporting the total number of accidents\*. This means that attention is now focused on all accidents, not just the most serious ones. In 2018, the total number of accidents decreased by 14 percent to 145 accidents (2017: 169). The total number of accidents per 200,000 hours worked dropped from 0.55 to 0.37. Most accidents in 2018 were related to falling and tripping (26 percent) and to cuts (26 percent). There were relatively many entrapments (25 percent) and collisions (15 percent). More serious accidents involved internal transport (forklift trucks and electric pallet cars), chemicals and the failure to properly secure equipment when needed.

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

In 2018, four areas of focus were identified to achieve the goal of zero accidents:

1. **Leadership** - The management teams of the production facilities must be aware of the role they have in promoting safety. This is why a special safety programme for managers was initiated at various production facilities in 2018. A programme has also been developed to prepare new managers for their role in the area of safety.
2. **Contractors** - In 2017 and 2018, more than half of the accidents involved contractors. This is a large group and includes temporary workers, cleaners, technicians and drivers. Various improvement initiatives have been started for these groups. Since mid-2018, temporary workers receive better supervision and were introduced to the risks associated with our business. In 2018, FrieslandCampina was nominated by VOMI, the sector association for the processing industry, for its contractor safety.
3. **Risk analysis** - A thorough risk analysis is indispensable and necessary for reducing and managing risks. In 2018, FrieslandCampina developed a methodology designed to maintain the risk analysis up to date and to implement improvements effectively and quickly.
4. **Closing the loop** - FrieslandCampina is doing everything it can to avoid repeat accidents by learning as much as possible from these accidents. After every incident, the causes and required actions are identified and followed up on. The story behind every accident is shared throughout the organisation, for example, through the intranet, in text or in video.

### Compass

In 2018, FrieslandCampina once again focused the attention of employees on Compass, its code of conduct for good business behaviour, and the Speak Up procedure. New employees attended an introduction session and completed mandatory e-learning about Compass and Speak Up. In 2018, 2,852 new employees throughout the world completed such e-learning. In addition, employees completed mandatory e-learning and training courses about Compass topics that are relevant to their position. Compass covers fourteen topics, such as sustainability, food and people safety, honest business practices and human rights. The last two themes are set out in further detail below.

In 2018, the number of Speak Up reports increased by 20 percent to 131 reports. The Compass code of conduct and the Speak Up procedure are posted on FrieslandCampina's [website](#).

### Honest business practices

A significant portion of FrieslandCampina's revenue is generated in countries where, in view of their low score on the Corruption Perceptions Index of Transparency International, honest business practices are at risk.

To limit these risks, FrieslandCampina takes targeted measures, for example by training employees in this area. FrieslandCampina adheres to honest business practices and fundamentally rejects any form of bribery.

In 2018, interactive workshops concerning relevant local dilemmas relating to the honest business practices theme were held in operating companies in various countries. More than 350 senior managers took part in these workshops. In 2019, such workshops will once again be held in various countries.

### Human rights

The Company respects and supports internationally recognised human rights, such as the right of employees to join recognised trade unions. With the OECD Guidelines for International Companies, the ILO Declaration on Fundamental Principles and Rights at Work, and the UN Universal Human Rights Declaration, as a fundamental starting point.

FrieslandCampina expects all employees, in the context of their employment contract, to immediately put any form of discrimination or harassment up for discussion. Child labour and forced labour are not tolerated. FrieslandCampina contributes to banning such practices. It expects its business partners to do the same.

In 2018, FrieslandCampina started work on developing a human rights policy that will be further fleshed out in 2019.

## Risk Management

FrieslandCampina is confronted with risks and uncertainties caused by external as well as internal factors. Global developments, such as the volatility of exchange rates, the volatility of energy and raw material prices, increasing laws and regulations, political instability, cyber risks and the increasing importance of digitisation and social media, increase the Company's degree of risk. FrieslandCampina opts for a proactive risk management approach, anchored in operating processes throughout the organisation. For a description of the complete risk management framework and an overview of the key risks and measures see the 'Risk management framework' section on page 37.

## Management statement

The Executive Board of the Company has final responsibility for controlling the risks associated with corporate goals and the reliability of external (financial) reporting. The Executive Board is also responsible for assessing the effectiveness of the controls aimed at preventing or mitigating such risks.

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

The Executive Board has assessed the performance of the internal management and control measures. Based on this assessment, the Executive Board concludes that:

- the report provides sufficient insight into the shortcomings and functioning of the internal risk management and control systems;
- the above-referenced systems provide a reasonable degree of certainty that the financial reporting does not contain any material misstatements as at the end of the financial year 2018;
- in accordance with the current state of affairs, the financial reporting has been prepared on a going concern basis; and
- the report includes a statement of the material risks and uncertainties that are relevant to the expected continuity of the Company for a period of twelve months following the preparation of the report.

## Executive responsibility

In accordance with Section 5:25c paragraph 2 under c of the Dutch Financial Supervision Act (Wft), the members of Royal FrieslandCampina N.V.'s Executive Board herewith state that, insofar as they are aware, the Company's financial statements provide a true and fair view of the assets, liabilities and financial position of Royal FrieslandCampina N.V. and the companies jointly consolidated, and that the Annual Report provides an accurate overview of the situation as on 31 December 2018, and progress and operations during the financial year of Royal FrieslandCampina N.V. and the consolidated companies, and that the essential risks that Royal FrieslandCampina N.V. is confronted with are set out in the Annual Report.

### **Executive Board**

#### **Hein (H.M.A.) Schumacher**

Chief Executive Officer

#### **Jaska (J.M.) de Bakker**

Chief Financial Officer

Amersfoort, 15 February 2019

# Governance

## Corporate governance

The corporate governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies. This information is published on FrieslandCampina's website. Although the Code is not applicable to the Company, because according to the law only stock exchange listed companies are governed by the Code, the Company applies the principles and best-practice provisions of the Code that are compatible with its structure of authority and the nature of the Cooperative. The provisions that are not applied are specified in this overview, along with the reasons why they are deemed inappropriate and the extent to which they are not applied. The Code was amended effective 1 January 2017. In addition, effective 1 January 2018, the Company's executive structure was changed. As a result, the Company has revised its governance structure. The Company's changed regulations went into effect on 1 January 2018.

### Executive Board

#### Composition, tasks and responsibilities of the Executive Board

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

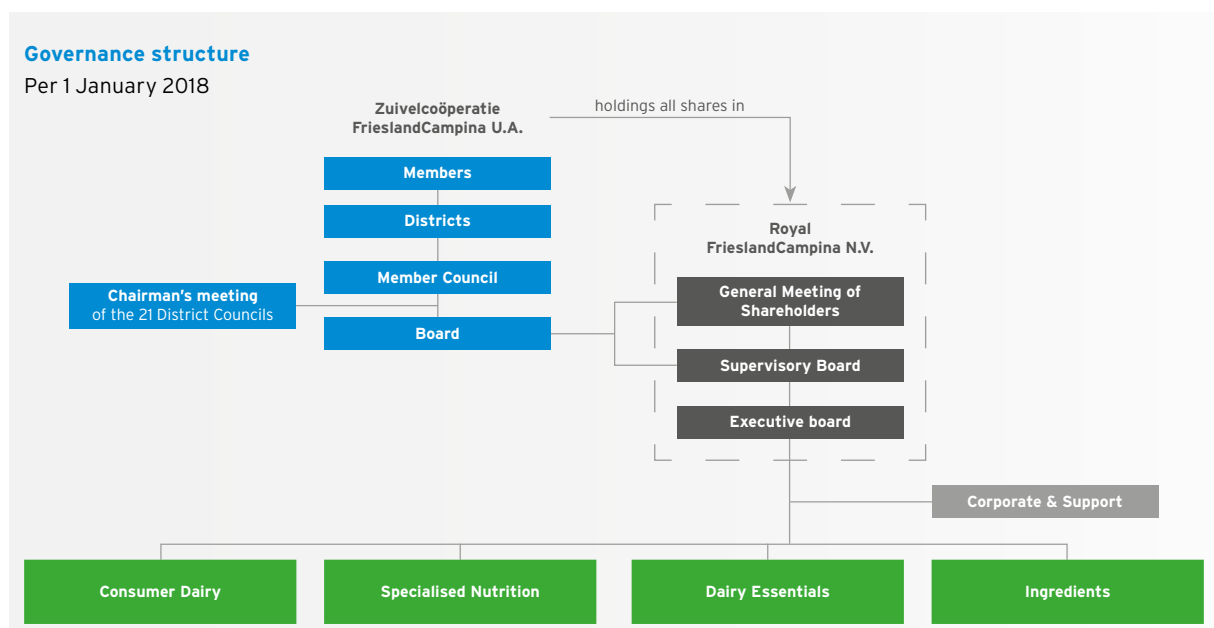
In the execution of its duties the Executive Board is focused on long-term value creation by the Company and its associated companies, and formulates an appropriate strategy for this purpose. The Executive Board is accountable to the Supervisory Board for its policy.

#### Appointment of Executive Board members

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

### Governance structure

Per 1 January 2018



## Executive Leadership Team

### Composition, tasks and responsibilities

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

### Appointment of Executive Leadership Team members

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

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

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

## Supervisory Board

### Tasks and responsibilities

The Supervisory Board supervises the policy set by the Executive Board and the general course of events in the Company and its businesses, and the associated companies. The Supervisory Board also advises the Executive Board. The Supervisory Board discusses with the Executive Board the strategy and main risks relating to the Company's operations and structure, and functioning of and 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 in this respect.

Several times each year, the Executive Leadership Team attends a meeting of the Supervisory Board, or a part thereof. On this occasion various topics, including the Company's strategy and budget, are discussed. In addition, the members of the Executive Leadership Team are invited to attend the meetings of the Supervisory Board when topics relevant to them are discussed. The Remuneration & Appointment Committee regularly holds progress meetings with the members of the Executive Leadership Team.

### Composition, independence and appointment

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

The chosen composition reflects the two-thirds dominance of internal members in a Supervisory Board permitted by the law for large cooperatives. This dominance by internal members is carried through to the Company level. This regulation deviates from the best-practice provisions for the independence of supervisory board members.

The four external Supervisory Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board member is a so-called financial expert.

The Company is a two-tier Company. Supervisory Board members are appointed by the Supervisory Board, on the basis of a co-optation system. The external Supervisory Board members are appointed for a four-year term and can subsequently be reappointed for another four-year term. After this, the external Supervisory Board members can be reappointed for another two-year term, which can subsequently be extended for a maximum of two years. Reappointment after a period of eight years must be substantiated in the Report of the Supervisory Board.

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

Information concerning the dates of (re)appointment and current terms of the Supervisory Board members is contained in the appointment and resignation roster on page 46.

### **Remuneration**

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

### **Supervisory Board committees**

The Supervisory Board has a Remuneration & Appointment Committee and an Audit Committee. The task of these committees is to prepare the decision-making of the Supervisory Board; they have no independent decision-making authority. The regulations of the committees are posted on FrieslandCampina's website. Both committees report regularly to the Supervisory Board regarding their deliberations and findings. Nine of the thirteen Supervisory Board members are not independent in the sense of the Code as described above. This means that the composition of the Committees of the Supervisory Board deviate from the best-practice provisions of the Code which stipulate that

more than half of the members of the Committees of the Supervisory Board should be independent as defined in the Code.

### **Audit Committee**

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

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

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

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

### Remuneration & Appointment Committee

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

The duties of the Remuneration & Appointment Committee include:

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

### Conflict of interests

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

### The General Meeting of Shareholders

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

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

- adopting the Company's financial statements and profit appropriation;
- discharging the members of the Executive Board for their management and the members of the Supervisory Board for their supervision of the Executive Board;
- adopting the profit distribution;
- adopting the remuneration policy for the Executive Board and the Executive Leadership Team, and approving the remuneration of the Supervisory Board members;
- appointing and dismissing the external auditor;
- amending the Articles of Association;
- issuing shares, excluding the pre-emptive right, authorising the repurchase of the Company's own shares, reducing the paid-up capital, dissolution and applying for bankruptcy.

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

### Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company with its registered office in Amersfoort, the Netherlands, and its central office at Stationsplein 4, Amersfoort. The Company's Articles of Association were most recently amended effective 26 January 2018 and are published on the Company's website. The latter amendments included the provisions concerning the appointment and reappointment terms of Supervisory Board members, and the incorporation of new legislation in the Articles of Association. The Company is registered in the Trade Register of the Chamber of Commerce under number 11057544. On 31 December 2018, the Company's authorised capital amounted to one billion euros divided into 10,000,000 (ten million) shares with a nominal value

of 100 euros. The shares are registered. On the same date, 3,702,777 shares were issued, which are all paid up and are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, pre-emptive right, acquisition of own shares and capital reduction, please refer to the Company's Articles of Association.

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

#### **Financial reporting**

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

#### **External auditor**

The external auditor is appointed by the General Meeting of Shareholders. The Supervisory Board nominates a candidate for this purpose. Both the Audit Committee and the Executive Board issue a recommendation to the Supervisory Board in this respect. The remuneration of the external auditor and assignment of the external auditor are approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board. The external auditor is in any event present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor discusses the draft audit plan with the Executive Board before submitting it to the Audit Committee.

#### **Internal audit function**

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

### **Best-practice provisions of the Code not applied by FrieslandCampina**

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

- 2.1, 2.1.7-2.1.9 *Independence of the Supervisory Board:* see motivation under 'Supervisory Board - Composition, independence and appointment'.
- 2.2.2 *Appointment and reappointment terms of Supervisory Board members:* deviation concerning internal members: see motivation under 'Supervisory Board - Composition, independence and appointment'.
- 2.3.2 *Institution of committees:* the Remuneration Committee and the Selection & Appointment Committee have, for practical reasons, been combined into the Remuneration & Appointment Committee.
- 2.3.4 *Composition of committees:* the composition of the Remuneration & Appointment Committee and the composition of the Audit Committee deviate from the best-practice provisions of the Code, which stipulate that more than half of the members of the committees should be independent: see motivation under 'Supervisory Board committees'.
- 2.8.1-2.8.3 *Takeover bids:* the best-practice provisions in respect of takeover bids are not applicable in view of the fact that the Company is not a listed Company and all shares in its capital are held by the Cooperative.
- 3.4 and 3.4.2 *Publishing of remuneration report, most important components of employment conditions or severance payment of Executive Board members:* the Company applies the statutory exception as defined in Article 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.
- 4.1-4.4.8 *General Meeting of Shareholders:* the best-practice provisions in respect of the general meeting of shareholders, information provision and briefings, voting and the issue of depositary receipts for shares are not applicable in view of the fact that the Company is not a listed Company and all shares in its capital are held by the Cooperative.

## Risk management framework

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

FrieslandCampina has defined strategic, operational, financial, financial reporting and compliance risks with a risk acceptance that is in proportion to these risks. Specific risk management programmes are used for these categories.

### Risk awareness and culture

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

Employee risk awareness is continuously enhanced through targeted communication and training. The responsibility for implementing control measures is delegated to employees with responsibility for risk management in a specific area

(for example, a process, system, asset or information). They are evaluated on this during their performance evaluation. FrieslandCampina stimulates a culture in which weak areas in its risk management programmes or control measures can be reported transparently and addressed effectively.

### Governance (lines of defence)

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

| Lines of defence | Explanatory note                                                                                                                                                                                                       | Responsibility                                                                                               |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| First Line       | Management carries primary responsibility for establishing and managing risks on a daily basis. In addition, management maintains a system of effective internal measures designed to limit these risks.               | Individual managers and the management teams of business groups and/or operating companies.                  |
| Second Line      | Supports management in developing, maintaining and monitoring the effectiveness of risk management processes and systems. Furthermore, the second line defines the risk management framework, policies and procedures. | Corporate departments, including Enterprise Risk Management, Internal Control, Compliance and Legal Affairs. |
| Third Line       | Ensures that the structure and the operational effectiveness of the internal management measures, including risk management activities carried out by first and second line functions, are objectively evaluated.      | Corporate Internal Audit                                                                                     |

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

#### Risk management improvements

Various improvements were made to the risk management process over the course of 2018.

- The responsibility for the design and the first-time-right execution of internal control measures was further embedded into the organisation (first line of defence);
- The monitoring of the execution and effectiveness of control measures was further automated;
- FrieslandCampina's governance, risk and compliance software was extended to support the Enterprise Risk Assessment programme;

- Improved reporting about risk management programmes (for example, via management dashboards);
- Training and awareness programmes were initiated in support of these improvements.

## Key risks and uncertainties

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

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

| Risks , trends and potential consequences                                                                                                                                                                                                                                                                                                                                      | Risk Acceptance                                                                                                                                                                                                                    | Mitigating Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Digitisation/technology (trends)</b><br/>Risk that our business models are overtaken by advanced technology developments.</p> <p>When the organisation fails to keep pace with technological developments, this can result in loss of consumers and customers (and therefore market share) or talented staff or reduced effectiveness.</p>                               | <p><b>Balanced</b><br/>FrieslandCampina views this trend as an opportunity to grow and aims for a leading position in relation to new distribution channels. It accepts a moderate risk that it will not succeed in this area.</p> | <p>The implementation of the <b>digital strategy</b> is being <b>accelerated</b> with the expansion of existing e-commerce channels and the development of new channels.</p> <p>Focus on a digitally <b>improved customer and consumer experience</b>, for example by providing value added services.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p><b>Balanced Business Portfolio (trends)</b><br/>Risk of an imbalanced business portfolio with products, brands, markets, geography or distribution channels.</p> <p>When the organisation does not have a balanced business portfolio it is too dependent on a limited number of business segments. This affects the (long-term) revenue and profit growth potential.</p>   | <p><b>Balanced</b><br/>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not threatened as a result.</p>                                                                       | <p>The strategic theme <i><b>Our Purpose, Our Plan</b></i> focuses on various initiatives designed to develop our business portfolio.</p> <p>The offer of <b>healthy dairy products</b> will be expanded. FrieslandCampina is concentrated on <b>increasing the sale of essential dairy products</b> by working on profitable positions for branded and no-name cheese, so that milk is less used for non-profitable products. The implementation of the <b>digital strategy</b> is being accelerated for the purpose of further developing the distribution channels. These initiatives are supported by <b>innovation roadmaps</b>.</p> <p>In addition to the initiatives included in <i><b>Our Purpose, Our Plan</b></i>, other plans are being developed relating to acquisitions, so as to also guarantee a balanced business portfolio for the future. The Company will continue to evaluate the business portfolio for a more balanced risk.</p> |
| <p><b>Financial (risks)</b><br/>Unfavourable development of the financial position of the Company due to (external) economic circumstances.</p> <p>Negative economic developments can have a direct impact on the Company's profitability and financial position.</p>                                                                                                          | <p><b>Balanced</b><br/>The Company is prepared to accept a moderate impact of external developments on its financial position (indicator: 5%-10% of total EBIT).</p>                                                               | <p><b>Strict procedures</b> for setting targets, preparing budgets, management reports and working capital management. Monitoring of economic developments and sensitivity analysis.</p> <p><b>Effective programmes designed to improve the Company's effectiveness</b> (for example, WCOM, Supply Chain Unlock, FORCE).</p> <p>Coordinated treasury and currency management. See notes on financial risk management from page 85.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p><b>Innovation (trends)</b><br/>Ability to renew the product range and to successfully respond to changing consumer preferences.</p> <p>Inability to meet consumer demand will result in lower revenue and profit, and possible loss of market share and brand value over the longer term. Dependence on a limited number of products makes the organisation vulnerable.</p> | <p><b>Balanced</b><br/>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not threatened as a result.</p>                                                                       | <p>The responsibility for product development has been transferred to the business groups (close to the market to be able to respond quickly and to put the focus on the customer) and innovation roadmaps are being developed as part of <i><b>Our Purpose, Our Plan</b></i>.</p> <p><b>Processes</b> designed to manage the innovation funnel and product development projects have been implemented.</p> <p>In addition, continuous programmes for the <b>analysis of consumer trends</b> (market research, focus groups, preference testing) are being implemented.</p>                                                                                                                                                                                                                                                                                                                                                                             |

| Risks , trends and potential consequences                                                                                                                                                                                                                                                                                                                                                                        | Risk Acceptance                                                                                                                                                                                                                                        | Mitigating Measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Milk supply (trends)</b><br/>Size of the milk supply does not match market demand or is greater than the milk processing capacity.</p> <p>The prices of basic dairy products are under significant pressure and major investments in additional processing capacity result in lower return, with lower milk prices for member dairy farmers as a consequence.</p>                                          | <p><b>Balanced</b><br/>FrieslandCampina is prepared to accept risks up to a certain level agreed to with member dairy farmers.</p>                                                                                                                     | <p><b>Agreement reached</b> to align the growth in the milk supply with market growth.</p> <p>Focus on a leading position relating to <b>sustainable dairy</b>, for example through the introduction of a top dairy line and more added value market positions (organically or through acquisitions or partnerships).</p>                                                                                                                                                                                                                             |
| <p><b>Product quality and food safety (risks)</b><br/>Poor product quality or product contamination that constitutes a health hazard to consumers.</p> <p>A quality problem or even a change in the perception of quality by consumers or government organisations can have serious consequences for the Company's reputation and market position.</p>                                                           | <p><b>None</b><br/>FrieslandCampina maintains the highest food quality and food safety standards.</p> <p>Consumers' health must not be endangered under any circumstances.</p>                                                                         | <p>The <b>Foqus quality programme</b> introduced at the Company's own sites, at member dairy farms and at suppliers, consists of strict quality measures and procedures. Regular audits also form part of this programme.</p> <p>The <b>Golden Quality Rules</b> have been implemented throughout the world.</p> <p><b>Continuous investments in quality</b> at production facilities and campaigns designed to further reinforce quality awareness.</p> <p>Supported by <b>transparent management reporting of quality</b> trends and incidents.</p> |
| <p><b>Reputation (risks)</b><br/>Potential reputation loss due to incidents or changes in public opinion.</p> <p>If an incident (for example, a problem within the sector) is not effectively managed, this can result in trade restrictions or significant reputation loss, and loss of market share and revenue in key international markets.</p>                                                              | <p><b>Low to none</b><br/>The Company is prepared to accept a moderate risk level, as long as the strategic long-term goals are not threatened as a result.</p>                                                                                        | <p>Global sustainability and dairy development programmes.</p> <p>Clear <b>communication procedures and protocols</b> (including crisis management and media tracking) with proactive involvement and communication with stakeholders (for example, governments, sector associations, NGOs).</p>                                                                                                                                                                                                                                                      |
| <p><b>Disruption of the Supply Chain (risks)</b><br/>Malfunction of critical operational business processes due to natural disasters or due to man-made risks.</p> <p>Malfunctions can have a significant adverse impact on the continuity of business processes and can result in the temporary loss of revenue. If they persist for extended periods of time, this can result in the loss of market share.</p> | <p><b>Balanced</b><br/>FrieslandCampina aims to limit the impact of unforeseen malfunctions on its business operations.</p> <p>This risk of natural disasters will always be present, in spite of continuous efforts designed to limit such risks.</p> | <p><b>Production@Risk Programme</b> for the continuity of processes at Company sites, including the implementation of general plans designed to improve safety measures, an insurance programme, inspections and audits.</p> <p>A programme is being developed to create <b>alternative production opportunities</b> for infant nutrition in Europe, China and Southeast Asia.</p> <p><b>Supply@Risk Programme</b> for the continuity of the supply of goods and services.</p> <p>Participation in sector-wide <b>animal disease protocols</b>.</p>   |

## Frieslandcampina and income tax expense

FrieslandCampina takes its tax payment obligations seriously.

### Tax legislation and regulations

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

### Tax position in the financial statements

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

### Tax planning

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

### Transfer pricing

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

### Tax management and risk management

FrieslandCampina's tax policy and tax control framework promote a culture of consistent and coherent tax conduct in accordance with laws and regulations and with the objective of creating a sustainable and predictable tax position. FrieslandCampina is convinced that building professional relationships with tax authorities based on mutual respect, transparency and trust contributes to this predictability. In the Netherlands, FrieslandCampina is a participant in the Horizontal Monitoring programme of the Netherlands Tax and Customs Authority.

# Report of the Supervisory Board

**The Supervisory Board is an independent body of the Company responsible for supervising and advising the Executive Board. In addition, the Supervisory Board oversees the general business progress, the strategy and the operational performance of the Company. In this respect, the Board also focuses on the effectiveness of the Company's internal risk management and control systems and the integrity and quality of the financial reporting.**

**In the performance of its duties, the Supervisory Board is led by the interests of the Company and its associated companies, and takes the relevant interests of all parties involved in the Company into consideration in this respect.**

**During the year under review, the Supervisory Board (the 'Board') carried out its tasks in accordance with the applicable laws and regulations and the Articles of Association of Royal FrieslandCampina N.V. (the 'Company').**

## Financial statements and profit appropriation

In the meeting of the Supervisory Board of 15 February 2019, the Supervisory Board discussed the 2018 financial statements with the Executive Board and approved the financial statements, after obtaining the advice of the Audit Committee, which had earlier discussed the financial statements in February. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which provided an unqualified auditor's opinion on them. Of the 203 million euro profit, 73 million euros will be attributed to the non-controlling interests and 74 million euros will be added to the retained earnings. The remaining profit will be appropriated as follows: 47 million euros will be reserved for the interest payments to holders of member bonds and 9 million euros will be reserved for the interest payment on 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 2018 financial year. Furthermore, the General Meeting of Shareholders will be asked to discharge the members of the Supervisory Board for their supervision of the Executive Board during the 2018 financial year.

On 28 March 2019, the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative') will be asked to grant approval of the decision to adopt the 2018 financial statements of Royal FrieslandCampina N.V., including the profit appropriation. This decision is taken by the Board of the Cooperative, which exercises

the Cooperative's shareholders' rights and in this capacity functions as the General Meeting of Shareholders of the Company.

## Meetings of the Supervisory Board

The Supervisory Board met eight times during the year under review. Outside the regular meetings there was also contact among members of the Supervisory Board, as well as with members of the Executive Board and the Executive Leadership Team. To prepare for the meetings, the Chairman and Vice-chairman regularly spoke with the CEO, among others.

A key and often recurring topic of attention over the past year was the progress of the Company's transformation. The findings of regularly conducted employee surveys confirm the perception that by far most employees have embraced the changes. In September, two days were devoted to discussing the new strategy presented by the Executive Board and the other members of the Executive Leadership Team. The Board has indicated that it supports this strategy, which focuses on long-term value creation within the Company and which is also aligned with the Cooperative's strategic direction. Agreements were made about the way in which the Board can monitor the strategy's progress.

The Board furthermore devoted specific attention to the Company's result trend during the year under review. The Board made sure that the Members' Council was informed about this.

The Supervisory Board also devoted attention to more regular topics such as the financial position, whereby the Audit Committee reported on its findings to the Board. The annual budget, acquisitions, major investment proposals and the progress of major investment projects, and internal risk management also received due attention. The Board was informed of the analysis of the operating risks and the measures being taken to mitigate the most important risks. In February of the year under review, the 2017 financial statements and the text of the Annual Report were discussed with the Executive Board and the external auditor, and approved by the Board. The report concerning the findings for the first half-year was set out by the external auditor and the auditor's management letter was discussed with management. It was noted that a proper process was always followed during the year under review and that the coordination between management and the external auditor was good. The report did not contain any material points of attention.

In 2018, special attention was furthermore devoted to the following topics:

- The Board was regularly informed of the progress of the introduction of a certified, sustainable dairy line 'On the way to PlanetProof' in the Netherlands.
- The managers responsible for the operating companies in Pakistan and Germany informed the Board of the state of affairs and the development of the results of their companies.
- The Board was furthermore informed of progress in the area of sustainability in comparison to previously set performance targets and of the way in which internal governance relating to sustainability is organised.
- During the review of the historical analysis of larger acquisitions, the Board discussed whether and to what extent the assumptions made in the investment proposals were correct.
- The Company's digital activities were discussed, and the areas of focus were identified.
- The implementation of the Cooperative strategy and, in particular, the relationship with aspects that are of importance to the Company's policy, were extensively discussed.

Topics such as remuneration, composition of the Supervisory Board, diversity, internal governance processes, and the evaluation of the performance of the Executive Board were discussed in the absence of the members of the Executive Board. During these closed meetings, the conduct of the Supervisory Board's own meetings was also evaluated and certain topics were the subject of further reflection.

The evaluation of the Supervisory Board's own performance and that of its members and committees was facilitated by an external expert this year, who spoke with all Board members. The general picture that emerged from this is that the Board is operating well and works together in harmony, with full transparency and mutual respect. The relationship with management is also very open. Sufficient information is being shared and the degree of commitment is good. The committees operate as required and the composition of the Board is good in the sense that the members complement each other in the areas of knowledge, experience and personalities. During the evaluation, the Board furthermore devoted attention to its own role in the strategy process and, in that context, which topics it would like to discuss more elaborately with management.

### Supervisory Board committees

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

### Audit Committee

The 2017 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 semi-annual reports, the Audit Committee in particular devoted attention to the more technical reporting aspects. Furthermore, the progress of preparing for an integrated annual report was discussed during the year under review. This report will also include the sustainability report, for the first time for 2018.

The planned activities of the external auditor were discussed on the basis of the external auditor's audit plan, which was approved by the Audit Committee. The 2018 semi-annual report, the findings of the external auditor with respect to 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. The Audit Committee was of the view that the external auditor maintained its independence.

A number of managers (Internal Audit, Internal Control, Enterprise Risk Management, Accounting, Treasury, ICT, Tax and Legal Affairs) 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 regular 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 segregation 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. Specific accounting subjects that were the topic of discussion included a new

accounting standard concerning lease accounting, an overview of the provisions for pension liabilities and the execution of the annual goodwill impairment test.

The Company's financing was discussed by the Audit Committee. In addition, the credit ratio trends and the credit rating granted by credit rating agencies were evaluated. The fiscal structure of the company was also discussed. Furthermore, a policy measure was applied to cover off the price risks relating to the trade of goods.

The Company's digital strategy was set out. The approach to dealing with cyber security risks was discussed in general, as well as specifically in the area of industrial automation, including an update of the improvement actions taken and to be taken.

The progress of the Summit project was regularly discussed and the Committee noted that the risks and costs are under control and that the implementations are going well.

An overview of material claims, as well as the provisions for claims, was also discussed and management reported on compliance with the FrieslandCampina Code of Conduct, Compass.

The 2018 Annual Report and financial statements were discussed in February 2019, 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 the year under review, the Audit Committee met five times in the presence of management, including the CEO and CFO and the officers responsible for the relevant corporate services departments. The external auditor was also present during four of these meetings. An additional - fifth - meeting was conducted by telephone. There also was contact among the members of the Committee and with management, outside the meetings. After each meeting, the Chairman reported to the Supervisory Board on the findings of the Audit Committee. In addition, the Audit Committee met twice a year with the external auditor in the absence of the Executive Board.

### **Remuneration & Appointment Committee**

The Remuneration & Appointment Committee made the necessary preparations for the evaluation of the Supervisory Board, its committees and individual members. This year, this evaluation was facilitated by an external expert, who spoke with each member individually and who subsequently facilitated a plenary session with the Board.

The activities of the Remuneration & Appointment Committee relating to remuneration first and foremost concerned the finalisation of the remuneration policy for the Executive Leadership Team. This policy was subsequently submitted to the Supervisory Board for approval and was approved. Furthermore, the Committee made the necessary preparations for the decision-making process concerning the adoption of the variable short and long-term remuneration of the Executive Board for the previous year and the Committee made a proposal to the Board for the objectives for the variable short and long-term remuneration for the upcoming period. In March 2018, the details concerning the remuneration of the members of the Executive Board and the Supervisory Board for the previous year, as well as the remuneration policy for the Executive Leadership Team, were reported to the Members' Council of Zuivelcoöperatie FrieslandCampina U.A.

The Committee discussed the succession plans for Executive Board members and other Executive Leadership Team members and was informed about the talent development policy. Furthermore, the Committee discussed the evaluation of the progress relating to performance management with management and provided advice to the Board concerning the appointment of a new member to the Executive Leadership Team.

The Remuneration & Appointment Committee met five 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 CEO and the Global Director HR were invited to attend the meetings of the Committee and attended these meetings. Furthermore, members of the Committee met several times with the Central Works Council.

**Attendance during meetings:**

| Supervisory Board Members | Meetings of the Supervisory Board (8) | Meetings of the Audit Committee (5) | Meetings of the Remuneration & Appointment Committee (5) |
|---------------------------|---------------------------------------|-------------------------------------|----------------------------------------------------------|
| J.W. Addink-Berendsen     | 8/8                                   | 5/5                                 | N/A                                                      |
| W. Dekker                 | 6/8                                   | N/A                                 | 5/5                                                      |
| B.E.G. ten Doeschot       | 8/8                                   | N/A                                 | N/A                                                      |
| L.W. Gunning              | 8/8                                   | N/A                                 | N/A                                                      |
| H.T.J. Hettinga           | 8/8                                   | N/A                                 | N/A                                                      |
| D.R. Hooft Graafland      | 8/8                                   | 5/5                                 | N/A                                                      |
| C.C.H. Hoogveen           | 8/8                                   | N/A                                 | N/A                                                      |
| A.A.M. Huijben-Pijnenburg | 8/8                                   | 5/5                                 | N/A                                                      |
| F.A.M. Keurentjes         | 8/8                                   | N/A                                 | 5/5                                                      |
| G. Mulder                 | 8/8                                   | N/A                                 | N/A                                                      |
| H. Stöcker                | 8/8                                   | N/A                                 | N/A                                                      |
| B. van der Veer           | 8/8                                   | 5/5                                 | N/A                                                      |
| W.M. Wunnekink            | 8/8                                   | N/A                                 | 4/5                                                      |

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

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

The composition of the Supervisory Board and its committees as at 15 February 2019 is shown on pages 127 to 129. There was no change in the composition of the Supervisory Board, nor its Committees, during the year under review. Ben van der Veer and René Hooft Graafland each qualify as financial expert in the sense of the Supervisory Board's regulations.

**Diversity**

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

target in this respect is to have at least 30 percent of the seats on the Supervisory Board occupied by women and at least 30 percent by men. Two internal members of the Supervisory Board are women; both women, as well as the Chairman, were reappointed in December for a four-year term. This in any case secures the representation of women members within the Cooperative (approximately 15 percent). The aim for a balanced participation of women and men was taken into consideration in these reappointments. For a subsequent vacancy on the Supervisory Board, the Remuneration & Appointment Committee in its search criteria shall once again specifically indicate that female candidates are desired for the position.

**Composition of the Executive Board and diversity**

The composition of the Executive Board as at 15 February 2019 is reported on page 130 and has not changed during the year under review.

**Diversity**

The aim of achieving a balanced composition also applies to the Executive Board and the Executive Leadership Team, where the combination of different experiences, backgrounds, skills and independence of members best enables the Executive Board and the Executive Leadership Team to function optimally. In addition, the aim is to achieve a balanced ratio of men and women on the Executive Board, as well as the Executive Leadership Team, with the objective of achieving a representation of at least 30 percent men

and at least 30 percent women on both bodies. With the composition of the Executive Board and the Executive Leadership Team as at 15 February 2019, this objective has been met.

Because, in general, the preference is to recruit internal candidates for both bodies, it is important that the ranks below the Executive Board also include sufficient women candidates. FrieslandCampina pursues a diversity policy focused on increasing the number of women in these ranks.

### In conclusion

The Supervisory Board thanks all FrieslandCampina employees for their efforts and dedication in 2018, a year of transformation in which everyone was asked to adapt to the new organisation and the new way of working. The Board is also grateful to the Executive Board and the Executive Leadership Team for their important contribution to make the transformation a success.

### Supervisory Board

Amersfoort, 15 February 2019

### Roster of appointments and retirements of the Supervisory Board

(as at 18 December 2018)

|                           | Start date of initial term | Reappointed for new term in December | Expiry of current term: in December |
|---------------------------|----------------------------|--------------------------------------|-------------------------------------|
| J.W. Addink-Berendsen     | 16 December 2014           | 2018                                 | 2022                                |
| W. Dekker #               | 1 July 2017                |                                      | 2020                                |
| B.E.G. ten Doeschot       | 15 December 2015           |                                      | 2019                                |
| L.W. Gunning #            | 14 December 2011           | 2015                                 | 2019                                |
| H.T.J. Hettinga           | 20 December 2016           |                                      | 2020                                |
| D.R. Hooft Graafland #    | 1 May 2015                 | 2018                                 | 2022                                |
| C.C.H. Hoogeveen          | 19 December 2017           |                                      | 2021                                |
| A.A.M. Huijben-Pijnenburg | 15 December 2010           | 2014, 2018                           | 2022                                |
| F.A.M. Keurentjes*        | 31 December 2008           | 2010, 2014, 2018                     | 2022                                |
| G. Mulder                 | 20 December 2016           |                                      | 2020                                |
| H. Stöcker                | 14 December 2011           | 2015                                 | 2019                                |
| B. van der Veer #         | 16 December 2009           | 2013, 2017                           | 2019                                |
| W.M. Wunnekink            | 16 December 2009           | 2013, 2017                           | 2021                                |

# Supervisory Board members who are not members of the Board of the Cooperative are appointed for a maximum of two four-year terms, followed by a maximum of two three-year terms. The other members of the Supervisory Board are appointed for a maximum of two four-year terms, with the exception of the Chairman (see the footnote below for this exception).

\* The Chairman is eligible for reappointment for an additional (fourth) term under the Articles of Association.



# Financial statements 2018

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## Financial statements

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# Consolidated income statement

| In millions of euros                                         | Note | 2018         | 2017    |
|--------------------------------------------------------------|------|--------------|---------|
| Revenue                                                      | (2)  | 11,553       | 12,110  |
| Cost of goods sold                                           | (3)  | -9,761       | -10,191 |
| <b>Gross profit</b>                                          |      | <b>1,792</b> | 1,919   |
| Advertising and promotion costs                              | (3)  | -540         | -536    |
| Selling and general administrative costs                     | (3)  | -867         | -867    |
| Other operating costs                                        | (4)  | -71          | -155    |
| Other operating income                                       | (4)  | 28           | 83      |
| <b>Operating profit</b>                                      |      | <b>342</b>   | 444     |
| Finance income                                               | (5)  | 45           | 10      |
| Finance costs                                                | (5)  | -52          | -68     |
| Share of profit of joint ventures and associates, net of tax | (10) | 22           | 21      |
| <b>Profit before tax</b>                                     |      | <b>357</b>   | 407     |
| Income tax                                                   | (6)  | -154         | -180    |
| <b>Profit for the year</b>                                   |      | <b>203</b>   | 227     |
| Profit attributable to:                                      |      |              |         |
| • holders of member bonds                                    |      | 47           | 44      |
| • provider of Cooperative loan                               |      | 9            | 9       |
| • shareholder                                                |      | 74           | 143     |
| <b>Shareholder and other providers of capital</b>            |      | <b>130</b>   | 196     |
| Non-controlling interests                                    |      | 73           | 31      |
| <b>Profit for the year</b>                                   |      | <b>203</b>   | 227     |

# Consolidated statement of comprehensive income

|                                                                                                                        |             |      |
|------------------------------------------------------------------------------------------------------------------------|-------------|------|
| In millions of euros                                                                                                   | <b>2018</b> | 2017 |
| <b>Profit for the year</b>                                                                                             | <b>203</b>  | 227  |
| <b>Items that will or may be reclassified to the income statement:</b>                                                 |             |      |
| Effective portion of cash flow hedges, net of tax                                                                      |             | 8    |
| Currency translation differences, net of tax                                                                           | -66         | -203 |
| Value changes in the fair value of securities, net of tax                                                              |             | -19  |
| Realised revaluation of available-for-sale financial assets, net of tax                                                |             | -8   |
| Share in other comprehensive income of joint ventures and associates accounted for using the equity method, net of tax | 1           | -3   |
|                                                                                                                        | <b>-65</b>  | -225 |
| <b>Items that will never be reclassified to the income statement:</b>                                                  |             |      |
| Remeasurement of liabilities (assets) under defined benefit plans, net of tax                                          | -4          | 8    |
|                                                                                                                        | <b>-4</b>   | 8    |
| <b>Other comprehensive income, net of tax</b>                                                                          | <b>-69</b>  | -217 |
| <b>Total comprehensive income for the year</b>                                                                         | <b>134</b>  | 10   |
| Total comprehensive income attributable to:                                                                            |             |      |
| • shareholder and other providers of capital                                                                           | 80          | 19   |
| • non-controlling interests                                                                                            | 54          | -9   |

# Consolidated statement of financial position

At 31 December, in millions of euros

|                                                                          | Note | 2018         | 2017  |
|--------------------------------------------------------------------------|------|--------------|-------|
| <b>Assets</b>                                                            |      |              |       |
| Property, plant and equipment                                            | (7)  | 3,282        | 3,208 |
| Intangible assets                                                        | (8)  | 1,708        | 1,757 |
| Biological assets                                                        | (9)  | 8            | 8     |
| Deferred tax assets                                                      | (18) | 229          | 301   |
| Joint ventures and associates                                            | (10) | 124          | 123   |
| Employee benefits                                                        | (17) | 8            | 10    |
| Other financial assets                                                   | (11) | 47           | 42    |
| <b>Non-current assets</b>                                                |      | <b>5,406</b> | 5,449 |
| Inventories                                                              | (12) | 1,367        | 1,518 |
| Trade and other receivables                                              | (13) | 1,636        | 1,655 |
| Income tax receivable                                                    |      | 34           | 29    |
| Other financial assets                                                   | (11) | 21           | 35    |
| Cash and cash equivalents                                                | (14) | 356          | 356   |
| Assets held for sale                                                     | (15) | 2            | 4     |
| <b>Current assets</b>                                                    |      | <b>3,416</b> | 3,597 |
| <b>Total assets</b>                                                      |      | <b>8,822</b> | 9,046 |
| <b>Equity</b>                                                            |      |              |       |
| Issued capital                                                           |      | 370          | 370   |
| Share premium                                                            |      | 114          | 114   |
| Other reserves                                                           |      | -282         | -236  |
| Retained earnings                                                        |      | 1,102        | 1,039 |
| <b>Equity attributable to shareholder</b>                                |      | <b>1,304</b> | 1,287 |
| Member bonds                                                             |      | 1,610        | 1,596 |
| Cooperative loan                                                         |      | 295          | 295   |
| <b>Equity attributable to shareholder and other providers of capital</b> |      | <b>3,209</b> | 3,178 |
| Non-controlling interests                                                |      | 343          | 334   |
| <b>Total equity</b>                                                      | (16) | <b>3,552</b> | 3,512 |
| <b>Liabilities</b>                                                       |      |              |       |
| Employee benefits                                                        | (17) | 433          | 475   |
| Deferred tax liabilities                                                 | (18) | 130          | 181   |
| Provisions                                                               | (19) | 14           | 14    |
| Interest-bearing borrowings                                              | (20) | 1,035        | 999   |
| Other financial liabilities                                              | (21) | 66           | 109   |
| <b>Non-current liabilities</b>                                           |      | <b>1,678</b> | 1,778 |
| Interest-bearing borrowings                                              | (20) | 616          | 661   |
| Trade and other payables                                                 | (22) | 2,741        | 2,891 |
| Income tax payable                                                       |      | 142          | 138   |
| Provisions                                                               | (19) | 86           | 62    |
| Other financial liabilities                                              | (21) | 7            | 4     |
| <b>Current liabilities</b>                                               |      | <b>3,592</b> | 3,756 |
| <b>Total liabilities</b>                                                 |      | <b>5,270</b> | 5,534 |
| <b>Total equity and liabilities</b>                                      |      | <b>8,822</b> | 9,046 |

# Consolidated statement of cash flows

| In millions of euros                                                                   | Note         | 2018        | 2017   |
|----------------------------------------------------------------------------------------|--------------|-------------|--------|
| <b>Cash flows from operating activities</b>                                            |              |             |        |
| <b>Profit before tax</b>                                                               |              | <b>357</b>  | 407    |
| <b>Adjustments for:</b>                                                                |              |             |        |
| • interest                                                                             | (5)          | 27          | 35     |
| • depreciation of plant and equipment and amortisation of intangible assets            | (7) (8)      | 362         | 368    |
| • impairments of non-current and intangible assets and reversals of impairments        | (7) (8) (15) | 22          | 75     |
| • impairments of other financial assets                                                | (11)         |             | 27     |
| • share of profit of joint ventures and associates                                     | (10)         | -22         | -21    |
| • other finance income and costs                                                       |              | -29         | 15     |
| • issue of member bonds                                                                |              | 14          | 32     |
| • gain on disposals                                                                    |              | -6          | -72    |
| • insurance compensation granted for material damages                                  |              |             | -10    |
| <b>Total adjustments</b>                                                               |              | <b>368</b>  | 449    |
| <b>Movements in:</b>                                                                   |              |             |        |
| • inventories                                                                          |              | 162         | -57    |
| • receivables                                                                          |              | 50          | -89    |
| • liabilities                                                                          |              | -178        | -94    |
| • employee benefits                                                                    |              | -36         | -46    |
| • provisions                                                                           | (19)         | 24          | 26     |
| <b>Total movements</b>                                                                 |              | <b>22</b>   | -260   |
| <b>Cash flows from operating activities</b>                                            |              | <b>747</b>  | 596    |
| Dividends received                                                                     |              | 23          | 22     |
| Income tax paid                                                                        |              | -120        | -162   |
| Interest paid                                                                          |              | -40         | -49    |
| Interest received                                                                      |              | 9           | 11     |
| <b>Net cash flows from operating activities</b>                                        |              | <b>619</b>  | 418    |
| <b>Investing activities</b>                                                            |              |             |        |
| Investments in property, plant and equipment and intangible assets                     |              | -485        | -530   |
| Disposals of property, plant and equipment, intangible assets and assets held for sale |              | 13          | 25     |
| Divestments of businesses, net of cash and cash equivalents                            |              |             | 71     |
| Received repayments of loans issued                                                    |              | 16          | 4      |
| Loans issued                                                                           |              | -1          | -14    |
| Acquisitions, net of cash and cash equivalents acquired                                | (1)          | -37         | -7     |
| Investments in and divestments of securities                                           | (11)         |             | 31     |
| Insurance compensation received for material damages                                   |              | 4           | 6      |
| <b>Net cash flows used in investing activities</b>                                     |              | <b>-490</b> | -414   |
| <b>Financing activities</b>                                                            |              |             |        |
| Dividend paid to holders of member bonds and non-controlling interests                 |              | -63         | -103   |
| Interest paid to holders of perpetual bonds and member bonds                           |              | -42         | -37    |
| Interest-bearing borrowings drawn                                                      |              | 851         | 1,886  |
| Repayment of interest-bearing borrowings                                               |              | -843        | -1,843 |
| Transactions with holder of put option                                                 | (26)         |             | -8     |
| Payment of contingent consideration                                                    | (26)         |             | -17    |
| Investments in non-controlling interests                                               | (1)          | -2          |        |
| Settlement of derivatives and other                                                    |              | -2          | 6      |
| <b>Net cash flows used in financing activities</b>                                     |              | <b>-101</b> | -116   |
| <b>Net cash flow</b>                                                                   |              | <b>28</b>   | -112   |
| Cash and cash equivalents at 1 January <sup>1</sup>                                    |              | 193         | 354    |
| Net cash flow                                                                          |              | 28          | -112   |
| Currency translation differences on cash and cash equivalents                          |              | 3           | -49    |
| <b>Cash and cash equivalents at 31 December <sup>1</sup></b>                           |              | <b>224</b>  | 193    |

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

<sup>1</sup> Equity attributable to shareholder and other providers of capital.

In millions of euros

2017

|                                                                                             | Issued capital | Share premium reserve | Member bonds | Cooperative loan | Other reserves     |                         |                              | Retained earnings | Equity <sup>1</sup> | Non-controlling interests | Total |
|---------------------------------------------------------------------------------------------|----------------|-----------------------|--------------|------------------|--------------------|-------------------------|------------------------------|-------------------|---------------------|---------------------------|-------|
|                                                                                             |                |                       |              |                  | Fair value reserve | Cash flow hedge reserve | Currency translation reserve |                   |                     |                           |       |
| <b>At 1 January</b>                                                                         | 370            | 114                   | 1,564        | 296              | 27                 | -33                     | -45                          | 876               | 3,169               | 446                       | 3,615 |
| Comprehensive income:                                                                       |                |                       |              |                  |                    |                         |                              |                   |                     |                           |       |
| • profit for the year                                                                       |                |                       | 44           | 9                |                    |                         |                              | 143               | 196                 | 31                        | 227   |
| • other comprehensive income                                                                |                |                       |              |                  | -27                | 8                       | -166                         | 8                 | -177                | -40                       | -217  |
| <b>Total comprehensive income for the year</b>                                              |                |                       | 44           | 9                | -27                | 8                       | -166                         | 151               | 19                  | -9                        | 10    |
| Transactions with shareholder and other providers of capital recognised directly in equity: |                |                       |              |                  |                    |                         |                              |                   |                     |                           |       |
| • dividends paid to non-controlling interests                                               |                |                       |              |                  |                    |                         |                              |                   |                     | -103                      | -103  |
| • interest paid to provider of Cooperative loan                                             |                |                       |              | -10              |                    |                         |                              | 2                 | -8                  |                           | -8    |
| • interest paid to holders of member bonds                                                  |                |                       | -44          |                  |                    |                         |                              | 10                | -34                 |                           | -34   |
| • issue of member bonds                                                                     |                |                       | 32           |                  |                    |                         |                              |                   | 32                  |                           | 32    |
| <b>Total transactions with shareholder and other providers of capital</b>                   |                |                       | -12          | -10              |                    |                         |                              | 12                | -10                 | -103                      | -113  |
| <b>At 31 December</b>                                                                       | 370            | 114                   | 1,596        | 295              |                    | -25                     | -211                         | 1,039             | 3,178               | 334                       | 3,512 |

<sup>1</sup> Equity attributable to shareholder and other providers of capital.

# Notes to the company financial statements

In millions of euros, unless stated otherwise

## General

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The Company is registered in the Chamber of Commerce's Trade Register, No. 11057544. The consolidated financial statements for the year ended 31 December 2018 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 29.

## Statement of compliance

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

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

After authorisation for issue by the Executive Board and the Supervisory Board on 15 February 2019 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2018 will be made available for publication by the Executive Board on 28 February 2019. On 28 March 2019 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 are measured at fair value with changes in value recognised in the income statement or in equity via the other comprehensive income;
- net pension obligation (asset) under the defined benefit pension plan, measured at the fair value of the plan assets less the present value of the accrued pension entitlements.

## Functional and presentation currency

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

## Judgements, estimates and assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis taking into account the opinion and advice of (external) experts. 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, 11 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 23);
- measurement of defined benefit obligations (Note 17);
- valuation of put option liabilities (Note 26)
- provisions and contingencies (Notes 19 and 23);
- key assumptions used to determine the fair value of business combinations and financial instruments (Notes 1 and 26).

**Consolidation of entities**

On 14 February 2018, FrieslandCampina expanded its 50% interest in China Huishan Dairy Investments (Hong Kong) Ltd to 100% by acquiring all remaining shares. As such, China Huishan Dairy Investments has become a wholly owned subsidiary of FrieslandCampina.

On 15 November 2018, FrieslandCampina obtained control (100%) over Jana Foods LLC and Jana Dairy Imports LLC. On 30 November 2018, FrieslandCampina acquired 100% of the shares in Millán Vicente S.L. On 18 December 2018, FrieslandCampina acquired 100% of the shares in Best Cheese Corporation and Best Cheese Import Inc. The above-referenced entities are fully consolidated as of these dates.

FrieslandCampina has a direct interest of 50% in DMV-Fonterra Excipients GmbH & Co. KG. In addition, FrieslandCampina has an interest of 51% 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, in case required, the recognition of a non-controlling interest.

FrieslandCampina holds an 82.30% interest in CSK Food Enrichment C.V. and CSK Food Enrichment 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.

For more detailed information regarding the above see Notes 1, 10 and 16 of the financial statements.

## 1 Acquisitions

### Acquisitions 2018

On 20 August 2018, FrieslandCampina acquired the cheese purchasing, production and distribution activities of Best Cheese Holland B.V. in the Netherlands, as well as the production and distribution of dairy dippers in the Netherlands.

On 15 November 2018, FrieslandCampina acquired the cheese importer and distributor Jana Foods in the United States. Jana Foods imports and sells cheese of FrieslandCampina and other suppliers.

On 30 November 2018, FrieslandCampina acquired the distribution activities of Millán Vicente in Spain by acquiring 100% of the shares in Millán Vicente S.L.

On 18 December 2018, FrieslandCampina acquired 100% of the shares in Best Cheese Corporation and Best Cheese Import Inc. from Best Cheese America's B.V. The acquired activities primarily consist of importing and distributing cheese in the United States.

The activities of the above-referenced acquisitions are included in business group Consumer Dairy.

The fair value of the assets acquired and liabilities assumed regarding the acquisitions above which are recognised on acquisition date is:

|                                                  |           |
|--------------------------------------------------|-----------|
| Property, plant and equipment                    | 6         |
| Intangible assets                                | 12        |
| Inventories                                      | 12        |
| Trade receivables and other assets               | 13        |
| Cash and cash equivalents                        | 2         |
| Deferred tax liabilities                         | -2        |
| Other payables                                   | -21       |
| <b>Total identifiable assets and liabilities</b> | <b>22</b> |

The fair value of the net identifiable assets acquired and liabilities assumed was determined on the basis of the provisional purchase price allocations. FrieslandCampina will finalise the purchase price allocations within one year following the acquisitions.

Acquired trade receivables amount to EUR 11 million. The full amount is considered collectable at acquisition dates.

Goodwill related to the acquisitions has been recognised as follows:

|                                                   |           |
|---------------------------------------------------|-----------|
| Considerations paid                               | 39        |
| Contingent considerations                         | 6         |
| Fair value of identifiable assets and liabilities | -22       |
| <b>Goodwill</b>                                   | <b>23</b> |

The goodwill is primarily attributable to the synergy benefits expected to be realised during the integration of the activities into business group Consumer Dairy. Since the purchase price allocations have not yet been finalised, the goodwill is recognised provisionally. The recognised goodwill is not tax-deductible.

The total acquisition-related costs amount to EUR 1 million. These costs in part relate to consulting services, external legal services and due diligence activities.

From the date of acquisition, these acquisitions contributed EUR 4 million to revenue, achieving a result of EUR 0 million. Management estimates that if the acquisitions would have been completed as per 1 January 2018, the consolidated revenue and profit of FrieslandCampina over 2018 would have amounted EUR 11,629 million and EUR 205 million respectively.

**Acquisition of additional interest in China Huishan Dairy Investments (Hong Kong) Ltd**

On 14 February 2018, FrieslandCampina has acquired the remainder 50% of the shares in China Huishan Dairy Investments (Hong Kong) Ltd. from China Huishan Dairy Holdings Company Ltd.

China Huishan Dairy Investments (Hong Kong) Ltd. was already consolidated. This expansion of the interest in this entity is recorded as a transaction between shareholders, and can be summarized as follows:

|                                                                                                   |            |
|---------------------------------------------------------------------------------------------------|------------|
| Contribution paid to non-controlling shareholders                                                 | -2         |
| Carrying amount of the additional interest                                                        | -18        |
| <b>Difference recognised in equity attributable to shareholder and other providers of capital</b> | <b>-20</b> |

**2 Revenue****Revenue by geographical location of customers**

|                            | <b>2018</b>   |            | 2017   |     |
|----------------------------|---------------|------------|--------|-----|
|                            |               | %          |        | %   |
| The Netherlands            | 2,588         | 22         | 2,836  | 23  |
| Germany                    | 1,069         | 9          | 1,171  | 10  |
| Rest of Europe             | 2,737         | 24         | 2,856  | 24  |
| Asia and Oceania           | 3,753         | 32         | 3,834  | 32  |
| Africa and the Middle East | 1,001         | 9          | 976    | 8   |
| North and South America    | 405           | 4          | 437    | 3   |
|                            | <b>11,553</b> | <b>100</b> | 12,110 | 100 |

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

**3 Operating expenses**

|                                                                                                                       | <b>2018</b>    | 2017    |
|-----------------------------------------------------------------------------------------------------------------------|----------------|---------|
| Milk from member dairy farmers                                                                                        | -3,933         | -4,346  |
| Cost of other raw materials, consumables used and commodities                                                         | -3,463         | -3,521  |
| Employee benefit expenses                                                                                             | -1,123         | -1,103  |
| Depreciation of plant and equipment and amortisation of intangible assets                                             | -362           | -368    |
| Impairments of property, plant and equipment, intangible assets and assets held for sale                              | -15            | -44     |
| Advertising and promotion costs                                                                                       | -540           | -536    |
| Transport costs                                                                                                       | -500           | -509    |
| Work contracted out and temporary staff                                                                               | -334           | -330    |
| Energy costs                                                                                                          | -185           | -191    |
| Other                                                                                                                 | -713           | -646    |
| <b>Total of the cost of goods sold, advertising and promotion costs and selling, general and administrative costs</b> | <b>-11,168</b> | -11,594 |

In 2018 research and development expenses amounted to EUR 80 million (2017: EUR 81 million), of which EUR 44 million related to employee costs (2017: EUR 45 million).

Operational lease expenses of EUR 60 million (2017: EUR 66 million) are included in the operating expenses.

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

**Employee benefit expenses**

|                                            | <b>2018</b>   |            | 2017   |     |
|--------------------------------------------|---------------|------------|--------|-----|
|                                            |               | %          |        | %   |
| Wages and salaries                         | -914          | 81         | -895   | 81  |
| Social security charges                    | -109          | 10         | -111   | 10  |
| Expenses under long-term employee benefits | -100          | 9          | -97    | 9   |
|                                            | <b>-1,123</b> | <b>100</b> | -1,103 | 100 |

**Employees by business group (average number of FTEs)**

|                       | <b>2018</b>   |            | 2017 <sup>1</sup> |     |
|-----------------------|---------------|------------|-------------------|-----|
|                       |               | %          |                   | %   |
| Consumer Dairy        | 13,610        | 57         | 13,752            | 58  |
| Specialised Nutrition | 2,348         | 10         | 2,241             | 10  |
| Ingredients           | 3,248         | 14         | 3,060             | 13  |
| Dairy Essentials      | 2,763         | 11         | 2,684             | 11  |
| Corporate and other   | 1,800         | 8          | 1,938             | 8   |
|                       | <b>23,769</b> | <b>100</b> | 23,675            | 100 |

<sup>1</sup> Effective from 1 January 2018, FrieslandCampina's business group structure was adjusted. For a description of the business groups see page 6 of the Executive Board Report. As a result of this adjustment the allocation of FTEs to the business groups has changed.

**Employees by geographical region (average number of FTEs)**

|                            | <b>2018</b>   |            | 2017   |     |
|----------------------------|---------------|------------|--------|-----|
|                            |               | %          |        | %   |
| The Netherlands            | 7,701         | 32         | 7,604  | 32  |
| Germany                    | 1,623         | 7          | 1,603  | 7   |
| Rest of Europe             | 3,937         | 17         | 3,774  | 16  |
| Asia and Oceania           | 9,306         | 39         | 9,518  | 40  |
| Africa and the Middle East | 1,029         | 4          | 1,010  | 4   |
| North and South America    | 173           | 1          | 166    | 1   |
|                            | <b>23,769</b> | <b>100</b> | 23,675 | 100 |

**4 Other operating costs and income**

|                                                                                         | <b>2018</b> |  | 2017 |  |
|-----------------------------------------------------------------------------------------|-------------|--|------|--|
| <b>Other operating costs</b>                                                            |             |  |      |  |
| Costs of implementing the ICT standardisation programme                                 | -18         |  | -27  |  |
| Restructuring costs and release of restructuring provisions (Note 19)                   | -33         |  | -47  |  |
| Impairments of non-current assets (and reversals thereof) due to restructuring (Note 7) | -7          |  | -31  |  |
| Impairment of securities                                                                |             |  | -27  |  |
| Other operating costs                                                                   | -13         |  | -23  |  |
|                                                                                         | <b>-71</b>  |  | -155 |  |
| <b>Other operating income</b>                                                           |             |  |      |  |
| Income from the sale of land, buildings, plants and business units                      | 6           |  | 63   |  |
| Income from the sale of securities                                                      |             |  | 9    |  |
| Insurance compensation                                                                  | 12          |  | 10   |  |
| Other operating income                                                                  | 10          |  | 1    |  |
|                                                                                         | <b>28</b>   |  | 83   |  |

**Insurance compensation**

On 6 January 2017, FrieslandCampina's WAMCO Nigeria PLC ('WAMCO') production facility in Lagos was hit by a fire that damaged the evaporated milk production hall. In 2017, EUR 10 million was awarded by insurance companies as compensation for material damages. In 2018, insurance companies awarded EUR 12 million as compensation for the loss of revenue and additional costs for temporary measures.

**Reversal of impairment**

Due to the decision to keep the production facility in Rijkevoort (the Netherlands) open, income in the amount of EUR 7 million is recognised in relation to the partial reversal of an impairment.

**5 Finance income and costs**

|                                                     | 2018       | 2017 |
|-----------------------------------------------------|------------|------|
| <b>Finance income</b>                               |            |      |
| Interest income                                     | 7          | 10   |
| Other finance income                                | 38         |      |
|                                                     | <b>45</b>  | 10   |
| <b>Finance costs</b>                                |            |      |
| Interest expenses                                   | -34        | -45  |
| Foreign exchange losses on receivables and payables | -11        | -2   |
| Other finance costs                                 | -7         | -21  |
|                                                     | <b>-52</b> | -68  |

The other finance income is primarily related to the release of a put option liability. See Note 26 for a further explanation. Aside from this, the other finance income consists of the result from hedging derivatives in the amount of EUR 8 million (2017: EUR 11 million expense).

Other finance costs comprise, among other things, the amortisation of transaction costs and commitment fees for non-current borrowings of EUR 3 million (2017: EUR 7 million). In addition, the other finance costs consist of the interest accrued on put option liabilities amounting to EUR 3 million (2017: EUR 3 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 2018, FrieslandCampina included a positive foreign exchange result in operating profit of EUR 16 million (2017: EUR 41 million negative).

**6 Income tax expense**

|                                                                     | 2018        | 2017 |
|---------------------------------------------------------------------|-------------|------|
| <b>Breakdown of tax expense</b>                                     |             |      |
| Current tax expense, current year                                   | -114        | -145 |
| Adjustment for prior years                                          | -4          | 7    |
| <b>Current tax expense</b>                                          | <b>-118</b> | -138 |
| Deferred tax expense, current year                                  | 3           | -4   |
| Adjustments to deferred taxes, attributable to changes in tax rates | -1          | 5    |
| Write-down of deferred tax assets                                   | -38         | -43  |
| <b>Deferred tax expense</b>                                         | <b>-36</b>  | -42  |
| <b>Income tax expense</b>                                           | <b>-154</b> | -180 |

|                                                       | 2018        |             | 2017        |             |
|-------------------------------------------------------|-------------|-------------|-------------|-------------|
| Effective tax rate                                    | Amount      | %           | Amount      | %           |
| Profit before tax                                     | 357         |             | 407         |             |
| Tax payable on the basis of the Dutch tax rate        | -89         | 25.0        | -102        | 25.0        |
| Effect of different tax rates outside The Netherlands | 6           | -1.7        | 6           | -1.5        |
| Effect change in tax rates                            | -1          | 0.3         | 5           | -1.2        |
| Share of result of joint ventures and associates      | 4           | -1.1        | 6           | -1.5        |
| Withholding tax on dividends                          | -9          | 2.5         | -12         | 2.9         |
| Non-deductible expenses                               | -30         | 8.4         | -50         | 12.3        |
| Tax-exempt income                                     | 7           | -2.0        | 3           | -0.7        |
| Write-down of deferred tax assets                     | -38         | 10.6        | -43         | 10.6        |
| Adjustments to estimates relating to prior years      | -4          | 1.1         | 7           | -1.7        |
| <b>Effective tax rate</b>                             | <b>-154</b> | <b>43.1</b> | <b>-180</b> | <b>44.2</b> |

|                                                 | 2018       |                        |            | 2017       |                        |            |
|-------------------------------------------------|------------|------------------------|------------|------------|------------------------|------------|
|                                                 | Before tax | Tax expense/<br>income | Net of tax | Before tax | Tax expense/<br>income | Net of tax |
| <b>Income tax recognised directly in equity</b> |            |                        |            |            |                        |            |
| Interest Cooperative loan                       | -9         | 2                      | -7         | -9         | 2                      | -7         |
| Interest member bonds                           | -47        | 11                     | -36        | -44        | 10                     | -34        |
|                                                 | <b>-56</b> | <b>13</b>              | <b>-43</b> | <b>-53</b> | <b>12</b>              | <b>-41</b> |

|                                                                              |            |           |            |             |          |             |
|------------------------------------------------------------------------------|------------|-----------|------------|-------------|----------|-------------|
| <b>Income tax recognised in other comprehensive income</b>                   |            |           |            |             |          |             |
| Movement cash flow hedge reserve                                             |            |           |            | 11          | -3       | 8           |
| Movement currency translation reserve                                        | -65        | -1        | -66        | -210        | 7        | -203        |
| Movement joint ventures and associates accounted for using the equity method | 1          |           | 1          | -3          |          | -3          |
| Movement available-for-sale financial assets                                 |            |           |            | -33         | 6        | -27         |
| Remeasurement of liabilities (assets) under defined benefit plans            | 3          | -7        | -4         | 11          | -3       | 8           |
|                                                                              | <b>-61</b> | <b>-8</b> | <b>-69</b> | <b>-224</b> | <b>7</b> | <b>-217</b> |

## 7 Property, plant and equipment

|                                          | 2018               |                     |                        |                           |              |
|------------------------------------------|--------------------|---------------------|------------------------|---------------------------|--------------|
|                                          | Land and buildings | Plant and equipment | Other operating assets | Assets under construction | Total        |
| Cost                                     | 1,595              | 3,887               | 401                    | 564                       | 6,447        |
| Accumulated depreciation and impairments | -751               | -2,215              | -273                   |                           | -3,239       |
| <b>Carrying amount at 1 January</b>      | <b>844</b>         | <b>1,672</b>        | <b>128</b>             | <b>564</b>                | <b>3,208</b> |
| Acquired through acquisition             | 2                  | 4                   |                        |                           | 6            |
| Additions                                | 2                  | 12                  | 6                      | 388                       | 408          |
| Disposals                                | -1                 | -3                  | -1                     |                           | -5           |
| Currency translation differences         | -3                 | -12                 | -1                     |                           | -16          |
| Transfers                                | 101                | 318                 | 73                     | -495                      | -3           |
| Depreciation                             | -64                | -192                | -37                    |                           | -293         |
| Impairments                              | -5                 | -14                 |                        | -12                       | -31          |
| Reversal of impairments                  | 1                  | 7                   |                        |                           | 8            |
| <b>Carrying amount at 31 December</b>    | <b>877</b>         | <b>1,792</b>        | <b>168</b>             | <b>445</b>                | <b>3,282</b> |
| Cost                                     | 1,691              | 4,131               | 472                    | 445                       | 6,739        |
| Accumulated depreciation and impairments | -814               | -2,339              | -304                   |                           | -3,457       |
| <b>Carrying amount at 31 December</b>    | <b>877</b>         | <b>1,792</b>        | <b>168</b>             | <b>445</b>                | <b>3,282</b> |
|                                          | 2017               |                     |                        |                           |              |
|                                          | Land and buildings | Plant and equipment | Other operating assets | Assets under construction | Total        |
| Cost                                     | 1,582              | 3,824               | 404                    | 570                       | 6,380        |
| Accumulated depreciation and impairments | -720               | -2,166              | -266                   |                           | -3,152       |
| <b>Carrying amount at 1 January</b>      | <b>862</b>         | <b>1,658</b>        | <b>138</b>             | <b>570</b>                | <b>3,228</b> |
| Acquired through acquisition             | 1                  | 1                   |                        |                           | 2            |
| Additions                                | 6                  | 22                  | 12                     | 434                       | 474          |
| Disposals                                |                    | -2                  | -1                     |                           | -3           |
| Currency translation differences         | -26                | -55                 | -5                     | -10                       | -96          |
| Transfers                                | 100                | 288                 | 34                     | -429                      | -7           |
| Transfer to assets held for sale         | -9                 | -6                  | -4                     | -1                        | -20          |
| Depreciation                             | -62                | -195                | -39                    |                           | -296         |
| Impairments                              | -28                | -41                 | -7                     |                           | -76          |
| Reversal of impairments                  |                    | 2                   |                        |                           | 2            |
| <b>Carrying amount at 31 December</b>    | <b>844</b>         | <b>1,672</b>        | <b>128</b>             | <b>564</b>                | <b>3,208</b> |
| Cost                                     | 1,595              | 3,887               | 401                    | 564                       | 6,447        |
| Accumulated depreciation and impairments | -751               | -2,215              | -273                   |                           | -3,239       |
| <b>Carrying amount at 31 December</b>    | <b>844</b>         | <b>1,672</b>        | <b>128</b>             | <b>564</b>                | <b>3,208</b> |

For explanation of the movement 'Acquired through acquisition', see note 1.

The additions of EUR 408 million primarily relate to production capacity expansions and replacement investments in the Netherlands.

Impairments in 2018 primarily relate to the announced closures of production facilities in Bree (Belgium), Saint-Paul-en-Jarez and Sénas (France) and Jeddah (Saudi Arabia). Other impairments are related to decommissioned assets or assets that are replaced.

The reversal of impairments in 2018 are primarily related to the reopening of the production facility Rijkevoort, the Netherlands.

The carrying amount of property, plant and equipment for which financial lease agreements apply is EUR 5 million (2017: EUR 5 million).

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 118 million (2017: EUR 109 million).

The investments include capitalised borrowing costs amounting to EUR 2 million (2017: EUR 4 million). The applicable average interest rate is 1.5% (2017: 1.8%).

## 8 Intangible assets

|                                             | 2018         |                                                  |            |                                            |              |
|---------------------------------------------|--------------|--------------------------------------------------|------------|--------------------------------------------|--------------|
|                                             | Goodwill     | Trademarks,<br>customer relations<br>and patents | Software   | Intangible<br>assets under<br>construction | Total        |
| Cost                                        | 1,330        | 527                                              | 310        | 105                                        | 2,272        |
| Accumulated amortisation and impairments    | -204         | -119                                             | -192       |                                            | -515         |
| <b>Carrying amount at 1 January</b>         | <b>1,126</b> | <b>408</b>                                       | <b>118</b> | <b>105</b>                                 | <b>1,757</b> |
| Acquired through acquisition                | 23           | 12                                               |            |                                            | 35           |
| Additions arising from internal development |              |                                                  |            | 23                                         | 23           |
| Additions                                   |              |                                                  | 3          | 28                                         | 31           |
| Currency translation differences            | -34          | -38                                              |            |                                            | -72          |
| Transfers                                   |              |                                                  | 112        | -109                                       | 3            |
| Amortisation                                |              | -26                                              | -43        |                                            | -69          |
| <b>Carrying amount at 31 December</b>       | <b>1,115</b> | <b>356</b>                                       | <b>190</b> | <b>47</b>                                  | <b>1,708</b> |
| Cost                                        | 1,319        | 469                                              | 422        | 47                                         | 2,257        |
| Accumulated amortisation and impairments    | -204         | -113                                             | -232       |                                            | -549         |
| <b>Carrying amount at 31 December</b>       | <b>1,115</b> | <b>356</b>                                       | <b>190</b> | <b>47</b>                                  | <b>1,708</b> |
|                                             | 2017         |                                                  |            |                                            |              |
|                                             | Goodwill     | Trademarks,<br>customer relations<br>and patents | Software   | Intangible<br>assets under<br>construction | Total        |
| Cost                                        | 1,422        | 598                                              | 261        | 105                                        | 2,386        |
| Accumulated amortisation and impairments    | -204         | -95                                              | -163       |                                            | -462         |
| <b>Carrying amount at 1 January</b>         | <b>1,218</b> | <b>503</b>                                       | <b>98</b>  | <b>105</b>                                 | <b>1,924</b> |
| Additions arising from internal development |              |                                                  |            | 32                                         | 32           |
| Additions                                   |              |                                                  | 3          | 22                                         | 25           |
| Currency translation differences            | -59          | -64                                              | -1         |                                            | -124         |
| Transfers                                   |              |                                                  | 60         | -53                                        | 7            |
| Transfers to assets held for sale           | -33          |                                                  |            |                                            | -33          |
| Amortisation                                |              | -31                                              | -41        |                                            | -72          |
| Impairments                                 |              |                                                  | -1         | -1                                         | -2           |
| <b>Carrying amount at 31 December</b>       | <b>1,126</b> | <b>408</b>                                       | <b>118</b> | <b>105</b>                                 | <b>1,757</b> |
| Cost                                        | 1,330        | 527                                              | 310        | 105                                        | 2,272        |
| Accumulated amortisation and impairments    | -204         | -119                                             | -192       |                                            | -515         |
| <b>Carrying amount at 31 December</b>       | <b>1,126</b> | <b>408</b>                                       | <b>118</b> | <b>105</b>                                 | <b>1,757</b> |

In 2010, FrieslandCampina launched a global ICT standardisation programme. During 2018, an amount of EUR 23 million was capitalised (2017: EUR 32 million). The portion that was still under construction at year-end 2018 was recognised in the movements schedule in the category 'Intangible assets under construction'. The amortisation on the ICT standardisation programme in 2018 amounted to EUR 29 million (2017: EUR 30 million) with the useful life being changed from 5 to 7 years.

In 2012, the system was implemented in the first operating companies and subsequently rolled out to a number of other operating companies. The rollout to the remaining operating companies will take several years and is expected to be completed in 2020.

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 when there is a trigger for impairment. Goodwill is monitored and tested at business group level. The goodwill impairment test calculates the recoverable amount - the value in use - per business group.

Effective from 1 January 2018, FrieslandCampina's business group structure was adjusted. For a description of the business groups see page 6 of the Report of the Executive Board. This adjustment to the management structure and the reporting to the Executive Board has caused the goodwill allocation to be changed.

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

|                       | 31 December 2018 | Assumptions 2018             |                                    |                         |
|-----------------------|------------------|------------------------------|------------------------------------|-------------------------|
|                       | Goodwill         | % Growth rate terminal value | % Average growth rate gross profit | % Pre-tax discount rate |
| Dairy Essentials      | 14               | 1.5                          | 3                                  | 5                       |
| Consumer Dairy        | 713              | 3.0                          | 9                                  | 8                       |
| Specialised Nutrition | 227              | 3.0                          | 7                                  | 8                       |
| Ingredients           | 161              | 2.5                          | 10                                 | 8                       |
|                       | <b>1,115</b>     |                              |                                    |                         |

|                             | 31 December 2017 | Assumptions 2017             |                                    |                         |
|-----------------------------|------------------|------------------------------|------------------------------------|-------------------------|
|                             | Goodwill         | % Growth rate terminal value | % Average growth rate gross profit | % Pre-tax discount rate |
| Consumer Products EMEA      | 530              | 3.5                          | 7                                  | 10                      |
| Consumer Products Asia      | 297              | 3.5                          | 5                                  | 10                      |
| Consumer Products China     | 105              | 3.0                          | 8                                  | 9                       |
| Cheese, Butter & Milkpowder | 33               | 1.5                          | 2                                  | 7                       |
| Ingredients                 | 161              | 2.5                          | 11                                 | 8                       |
|                             | <b>1,126</b>     |                              |                                    |                         |

The goodwill impairment test was carried out in the first half of the year, as a result of which the impact of the acquisitions that were made in the second half of the year are not included in the above-referenced assumptions.

The average growth rate of the gross profit for each business group in the long-term plans to 2021 are based on past experience, specific expectations for the near future and market-based growth percentages. The increases were mainly related to the forecasted increase in revenue and efficiency improvements. The discount rate for each business group is based on information that can be verified in the market and is before tax.

The values in use of the business groups were determined on the basis of the 2018 outlook and the long-term plans until 2021. A compensation for the role the business group Dairy Essentials (in 2017: Cheese, Butter & Milkpowder) plays in processing member milk and fat in particular was also taken into account. This compensation by the other business groups serves to cover the loss on processing member dairy farmers' milk in basic dairy products, realised by the business group Dairy Essentials, as all milk supplied by the member dairy farmers must be accepted. For the period after 2021, 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 exceed 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**

The biological assets concern dairy livestock in Pakistan. On 31 December 2018, FrieslandCampina has 3,170 mature cows able to produce milk (2017: 3,179) and 2,580 immature cows that are being raised to produce milk in the future (2017: 2,197).

**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 shows, in aggregate, the carrying amount and the share of total comprehensive income of these joint ventures and associates.

|                                                       | 2018           |            | 2017           |            |
|-------------------------------------------------------|----------------|------------|----------------|------------|
|                                                       | Joint ventures | Associates | Joint ventures | Associates |
| Carrying amount                                       | 83             | 41         | 83             | 40         |
| Share of:                                             |                |            |                |            |
| Profit or loss from continuing operations, net of tax | 15             | 7          | 14             | 7          |
| Other comprehensive income                            | 1              |            | -3             |            |
| <b>Total comprehensive income</b>                     | <b>16</b>      | <b>7</b>   | 11             | 7          |

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

The largest joint venture concerns the 50% interest in Betagen Holding Ltd and this interest is accounted for using the equity method. FrieslandCampina's interest in Betagen Holding Ltd. amounts to EUR 65 million (2017: EUR 65 million), of which EUR 30 million goodwill (2017: EUR 30 million), and the share in the 2018 profit amounted to EUR 9 million (2017: EUR 10 million).

For a summary of the most important joint ventures and associates, see page 107.

**11 Other financial assets**

|                                           | 2018      | 2017 |
|-------------------------------------------|-----------|------|
| <b>Non-current other financial assets</b> |           |      |
| Loans issued                              | 19        | 24   |
| Securities                                | 1         | 1    |
| Derivatives                               | 21        | 15   |
| Non-current receivables                   | 6         | 2    |
|                                           | <b>47</b> | 42   |
| <b>Current other financial assets</b>     |           |      |
| Derivatives                               | 3         | 8    |
| Other                                     | 18        | 27   |
|                                           | <b>21</b> | 35   |

A loan of EUR 3 million to the joint venture Great Ocean Ingredients Pty. Ltd. is fully recorded as current other financial asset (2017: EUR 5 million non-current and EUR 1 million current).

The average interest rate on the loans issued at the end of 2018 was 4.9% (2017: 2.5%). The maturity date of EUR 14 million of the loans issued is after 2022. All the loans issued are still within their due dates.

Besides the current portion of the loans issued, current other financial assets mainly concerns funds 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.

The provision for expected credit losses relating to other financial assets was not significant at year-end 2018.

For information regarding derivatives, see Note 21. The determination of the fair value of the securities and derivatives is included in Note 26.

## 12 Inventories

|                                    | 2018         | 2017  |
|------------------------------------|--------------|-------|
| Raw materials and consumables used | 450          | 565   |
| Finished goods and commodities     | 981          | 1,024 |
| Write-down to net realisable value | -64          | -71   |
|                                    | <b>1,367</b> | 1,518 |

EUR 271 million (2017: EUR 300 million) of the inventories is valued at net realisable value. The write-down to net realisable value is recognised in the cost of goods sold.

No inventories are pledged as collateral for liabilities.

## 13 Trade and other receivables

|                                                                                     | 2018         | 2017  |
|-------------------------------------------------------------------------------------|--------------|-------|
| Trade receivables                                                                   | 1,346        | 1,334 |
| Provision for doubtful debts                                                        | -20          | -17   |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A.                             | 11           |       |
| Other receivables                                                                   | 54           | 90    |
|                                                                                     | <b>1,391</b> | 1,407 |
| Receivables related to tax (excluding income tax) and social security contributions | 134          | 150   |
| Prepayments                                                                         | 111          | 98    |
|                                                                                     | <b>1,636</b> | 1,655 |

### Provision for doubtful debts

|                                  |            |     |
|----------------------------------|------------|-----|
| At 1 January                     | -17        | -30 |
| Currency translation differences |            | 1   |
| Charged to the income statement  | -9         | -5  |
| Released to the income statement | 3          | 7   |
| Trade receivables written off    | 3          | 10  |
| <b>At 31 December</b>            | <b>-20</b> | -17 |

|                                                      | 2018         |            |              | 2017  |            |       |
|------------------------------------------------------|--------------|------------|--------------|-------|------------|-------|
| <b>Maturity schedule trade and other receivables</b> | Gross        | Write-down | Net          | Gross | Write-down | Net   |
| Within payment term                                  | 1,157        | -4         | 1,153        | 1,201 | -5         | 1,196 |
| Overdue by less than 3 months                        | 228          | -4         | 224          | 205   | -2         | 203   |
| Overdue by 3 - 6 months                              | 12           |            | 12           | 8     | -1         | 7     |
| Overdue by more than 6 months                        | 14           | -12        | 2            | 10    | -9         | 1     |
|                                                      | <b>1,411</b> | <b>-20</b> | <b>1,391</b> | 1,424 | -17        | 1,407 |

The additions and releases of the provision for doubtful debts have been included in the cost of goods sold. Receivables are written off and charged to the provision when they are not expected to be collected. The increase in the provision as a consequence of IFRS 9 is not significant.

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 2018, this insured position amounted to EUR 226 million (2017: EUR 261 million). No trade receivables have been pledged.

#### 14 Cash and cash equivalents

|                                 | 2018       | 2017 |
|---------------------------------|------------|------|
| Deposits                        | 129        | 101  |
| Other cash and cash equivalents | 227        | 255  |
|                                 | <b>356</b> | 356  |

Funds of EUR 3 million (2017: EUR 36 million) are not freely available and mainly designated for intercompany supplies in Nigeria. These funds are released once the goods are supplied, normally within 2 to 4 weeks.

#### 15 Assets and liabilities held for sale

|                                                   | 2018     | 2017 |
|---------------------------------------------------|----------|------|
| <b>Assets held for sale</b>                       |          |      |
| At 1 January                                      | 4        | 5    |
| Transfer from property, plant and equipment       |          | 20   |
| Transfer from intangible assets                   |          | 33   |
| Transfer from current assets                      |          | 21   |
| Disposals                                         | -2       | -76  |
| Reversal of impairments                           |          | 1    |
| <b>At 31 December</b>                             | <b>2</b> | 4    |
| <b>Liabilities held for sale</b>                  |          |      |
| Transfer from current and non-current liabilities |          | 35   |
| Disposals                                         |          | -35  |
| <b>At 31 December</b>                             |          |      |

Assets held for sale at the end of 2018 comprise property, plant and equipment.

The total result on the disposal of assets held for sale amounts to EUR 2 million in 2018 (2017: 63 million) and 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 shares. EUR 370 million has been paid up on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are held by Zuivelcoöperatie FrieslandCampina U.A.

##### Share premium reserve

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

##### Member bonds

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

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

From the profit over the 2018 financial year, EUR 47 million (2017: EUR 44 million) is attributed to the holders of the member bonds as an interest payment. In addition, in 2018 EUR 14 million (2017: EUR 32 million) is attributed to member dairy farmers through the issue of members bonds-fixed and member bonds-free, as part of the compensation for the milk supplied during 2018.

#### **Cooperative loan**

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

EUR 9 million of the profit over the 2018 financial year (2017: EUR 9 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 available-for-sale financial assets.

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

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

#### **Retained earnings**

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

#### **Reserve policy**

The 2017-2019 reserve policy stipulates that 55% of the Company's profit based on the guaranteed price, as far as it attributes to the shareholder of the Company, will be added to the retained earnings of the Company. As part of the milk supply allowances in 2018, 35% of this profit can be paid out in cash to member dairy farmers as a performance premium and 10% will be distributed to member dairy farmers in the form of member bonds-fixed or in certain cases partly as member bonds-free. In the event of a goodwill impairment greater than EUR 100 million, the Executive Board may 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 performance premium has also been included in the financial statements and accounted for in cost of goods sold.

**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.

|                                                                  |                                                       |                     |                                                          |                                                   |       | 2018       |
|------------------------------------------------------------------|-------------------------------------------------------|---------------------|----------------------------------------------------------|---------------------------------------------------|-------|------------|
|                                                                  | FrieslandCampina<br>WAMCO Nigeria<br>PLC <sup>1</sup> | Engro<br>Foods Ltd. | DMV-Fonterra<br>Excipients GmbH<br>& Co. KG <sup>1</sup> | Dutch Lady Milk<br>Industries Berhad <sup>1</sup> | Other | Total      |
| <b>Non-controlling interest percentage</b>                       | 32.19%                                                | 49%                 | 50%                                                      | 49.04%                                            |       |            |
| Non-current assets                                               | 54                                                    | 282                 | 56                                                       | 22                                                |       |            |
| Current assets                                                   | 177                                                   | 60                  | 86                                                       | 59                                                |       |            |
| Non-current liabilities                                          | -8                                                    | -81                 | -20                                                      | -2                                                |       |            |
| Current liabilities                                              | -180                                                  | -54                 | -30                                                      | -58                                               |       |            |
| <b>Net assets</b>                                                | <b>43</b>                                             | <b>207</b>          | <b>92</b>                                                | <b>21</b>                                         |       |            |
| Carrying amount of non-controlling interest                      | 14                                                    | 101                 | 141                                                      | 11                                                | 76    | <b>343</b> |
| Revenue                                                          | 370                                                   | 226                 |                                                          | 219                                               |       |            |
| Profit for the year                                              | 32                                                    | 0                   | 57                                                       | 24                                                |       |            |
| Other comprehensive income                                       | -12                                                   | -42                 | -3                                                       | -1                                                |       |            |
| <b>Total comprehensive income</b>                                | <b>20</b>                                             | <b>-42</b>          | <b>54</b>                                                | <b>23</b>                                         |       |            |
| Profit allocated to non-controlling interest                     | 10                                                    |                     | 30                                                       | 12                                                | 21    | <b>73</b>  |
| Other comprehensive income allocated to non-controlling interest | -4                                                    | -21                 | -1                                                       |                                                   | 7     | <b>-19</b> |
| Dividends paid out to non-controlling interest                   | 8                                                     | -1                  | -20                                                      | 18                                                | 18    | <b>63</b>  |
| Net cash from/used in operating activities                       | -1                                                    | 11                  |                                                          | 8                                                 |       |            |
| Net cash used in investing activities                            | -28                                                   | -10                 |                                                          | -3                                                |       |            |
| Net cash used in financing activities                            | -2                                                    | -3                  |                                                          | -36                                               |       |            |
| <b>Net cash flows</b>                                            | <b>-31</b>                                            | <b>-2</b>           |                                                          | <b>-31</b>                                        |       |            |

<sup>1</sup> As the 2018 results of FrieslandCampina WAMCO Nigeria PLC, DMV-Fonterra Excipients GmbH & Co. KG and Dutch Lady Industries Berhad are not yet publicly available, the 2017 figures have been disclosed. Furthermore, the revenue and cash flows of DMV-Fonterra Excipients GmbH & Co. KG are not publicly available.

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.

|                                                                        |                                          |                     |                                                        |                                                          |                                      |       | 2017  |
|------------------------------------------------------------------------|------------------------------------------|---------------------|--------------------------------------------------------|----------------------------------------------------------|--------------------------------------|-------|-------|
|                                                                        | FrieslandCampina<br>WAMCO Nigeria<br>PLC | Engro<br>Foods Ltd. | China Huishan<br>Dairy Investments<br>(Hong Kong) Ltd. | DMV-Fonterra<br>Excipients GmbH<br>& Co. KG <sup>1</sup> | Dutch Lady Milk<br>Industries Berhad | Other | Total |
| <b>Non-controlling<br/>interest percentage</b>                         | 32.19%                                   | 49.00%              | 50.00%                                                 | 50.00%                                                   | 49.04%                               |       |       |
| Non-current assets                                                     | 54                                       | 357                 | 49                                                     | 56                                                       | 22                                   |       |       |
| Current assets                                                         | 177                                      | 64                  | 16                                                     | 86                                                       | 59                                   |       |       |
| Non-current liabilities                                                | -8                                       | -118                | -12                                                    | -20                                                      | -2                                   |       |       |
| Current liabilities                                                    | -180                                     | -52                 | -90                                                    | -30                                                      | -58                                  |       |       |
| <b>Net assets</b>                                                      | 43                                       | 251                 | -37                                                    | 92                                                       | 21                                   |       |       |
| Carrying amount of<br>non-controlling interest                         | 14                                       | 123                 | -18                                                    | 141                                                      | 11                                   | 63    | 334   |
| Revenue                                                                | 370                                      | 291                 | 31                                                     |                                                          | 219                                  |       |       |
| Profit for the year                                                    | 32                                       | -11                 | -75                                                    | 57                                                       | 24                                   |       |       |
| Other comprehensive<br>income                                          | -12                                      | -63                 | -1                                                     | -3                                                       | -1                                   |       |       |
| <b>Total comprehensive<br/>income</b>                                  | 20                                       | -74                 | -76                                                    | 54                                                       | 23                                   |       |       |
| Profit allocated to non-<br>controlling interest                       | 10                                       | -6                  | -37                                                    | 30                                                       | 12                                   | 22    | 31    |
| Other comprehensive<br>income allocated to<br>non-controlling interest | -4                                       | -31                 |                                                        | -1                                                       |                                      | -4    | -40   |
| Dividend paid out to<br>non-controlling interest                       | 8                                        | 32                  |                                                        | 20                                                       | 18                                   | 25    | 103   |
| Net cash from/used in<br>operating activities                          | -1                                       | 39                  | -3                                                     |                                                          | 8                                    |       |       |
| Net cash used in<br>investing activities                               | -28                                      | -12                 | -1                                                     |                                                          | -3                                   |       |       |
| Net cash from/used in<br>financing activities                          | -2                                       | -38                 |                                                        |                                                          | -36                                  |       |       |
| <b>Net cash flows</b>                                                  | -31                                      | -11                 | -4                                                     |                                                          | -31                                  |       |       |

<sup>1</sup> The revenue and cash flows of this entity are not publicly available.

## 17 Employee benefits

|                                                      | 2018       | 2017 |
|------------------------------------------------------|------------|------|
| <b>Obligations under long-term employee benefits</b> |            |      |
| Net pension liability                                | 406        | 446  |
| Other long-term employee benefits                    | 19         | 19   |
|                                                      | <b>425</b> | 465  |

### 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.

| <b>Annual pensionable salary</b>   | <b>Pension plan for Dutch employees covered by the Collective Labour Agreement for the dairy sector as from 1 January 2015</b>                                                     |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Up to EUR 64,786                   | 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 64,786 and EUR 105,075 | Individual defined contribution plan, administered by a premium pension institution                                                                                                |
| Above EUR 105,075                  | 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 a 'settlement of the full plan'. At that moment the present value of the gross obligation pursuant to the pension benefits ('gross pension liability') and the fair value of the plan assets (at end of 2018 both: EUR 1,367 million) will be released from the net pension liability in the statement of financial position because FrieslandCampina will no longer be exposed to risks. This will not affect the income statement because the current, and at the moment of settlement expected net pension liability (the gross pension liability minus the fair value of plan assets) amounts to nil.

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

The pension plan entitlements accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees concerns a defined benefit plan. At the end of 2018, this plan accounted for 52% of the total gross pension liability (2017: 53%) and is disclosed in more detail below.

|                              |                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Plan characteristics</b>  | From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants will be annually indexed during the term of the five-year collective 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. |
| <b>Pension administrator</b> | An insurance company, in a segregated investment fund via a guarantee contract.                                                                                                                                                                                                                                                                 |

|                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Funding agreements</b>         | <p>Each year FrieslandCampina pays in total a premium, calculated based on market value, for the indexation of the pensions of active participants.</p> <p>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.</p> <p>Finally, in respect of the segregated investment fund, if the coverage ratio remains lower than the contractual 110% for longer than 18 consecutive months from the end of the calendar year, FrieslandCampina has the obligation to make good the shortfall. At the end of 2018 the coverage ratio was 110.4% determined on the basis of the principles specified in the insurance contract (2017: 118.7%).</p> |
| <b>Supervision and governance</b> | <p>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.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Participants</b>               | <p>Approximately 51% of the participants are active, 32% are former employees and 17% are pensioners. The average duration of the pension obligations is around 19 years.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Most significant risks</b>     | <p>The most significant risk is that the coverage ratio at the end of the calendar year drops below 110%. If this situation continues for more than 18 consecutive months, FrieslandCampina has the obligation to pay a supplementary premium in order to ensure the funding ratio is restored to 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.</p>                                                                                                                                                                                                                                                                                                                                                                    |

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

The pension plan entitlements accrued until 2015 by former Campina employees concerns a defined benefit plan. At the end of 2018, this plan accounted for 39% (2017: 39%) 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 plans disclosed above, the Dutch employees who were employed at the end of 2005 are possibly 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 2018, this plan accounted for 3% of the total gross pension liability (2017: 2%).

***Dutch employees covered by the Collective Labour Agreement for 'Het Partikulier Kaaspakhuisbedrijf'***

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

**Foreign employees**

In respect of FrieslandCampina's foreign activities, both defined contribution and defined benefit plans are applicable. The most important defined benefit pension plans are the plans in Germany. These are primarily unfunded pension plans based on salary, length of service and fixed amounts that account for 3% (2017: 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.

| <b>Assumptions <sup>1</sup></b>        | <b>2018</b>     | <b>2017</b>     |
|----------------------------------------|-----------------|-----------------|
|                                        | <b>%</b>        | <b>%</b>        |
| Discount rate                          | 1.7 - 1.9       | 1.8 - 2.0       |
| Wage inflation                         | n.a.            | n.a.            |
| Price inflation / increase franchise   | 2.0             | 2.0             |
| Indexation                             |                 |                 |
| - active employees                     | 1.8             | 1.8             |
| - former and retired employees         | 1.5             | 2.0             |
| Life expectancy                        | <b>in years</b> | <b>in years</b> |
| - man / woman age 65 at end of year    | 20.3 / 23.1     | 20.3 / 23.4     |
| - man / woman age 65 in 20 years' time | 22.7 / 25.3     | 22.8 / 25.8     |

<sup>1</sup> The percentages shown concern the above-referenced schemes for the pension entitlements of employees in the Netherlands, and represent 92% (2017: 92%) of the gross pension liability and 98% (2017: 98%) of the fair value of plan assets.

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 and specification of net pension liability**

|                                                                                    | Gross pension liability |       | Fair value of plan assets |        | Net pension liability |      |
|------------------------------------------------------------------------------------|-------------------------|-------|---------------------------|--------|-----------------------|------|
|                                                                                    | 2018                    | 2017  | 2018                      | 2017   | 2018                  | 2017 |
| <b>At 1 January</b>                                                                | <b>3,917</b>            | 4,010 | <b>-3,471</b>             | -3,498 | <b>446</b>            | 512  |
| <b>Included in the income statement</b>                                            |                         |       |                           |        |                       |      |
| <b>Operating expenses:</b>                                                         |                         |       |                           |        |                       |      |
| Current service cost                                                               | 13                      | 13    |                           |        | 13                    | 13   |
| Pension plan adjustment                                                            |                         | -4    |                           |        |                       | -4   |
| Interest expense or income                                                         | 74                      | 74    | -66                       | -64    | 8                     | 10   |
| Administration costs                                                               |                         |       | 1                         | 1      | 1                     | 1    |
| <b>Total</b>                                                                       | <b>87</b>               | 83    | <b>-65</b>                | -63    | <b>22</b>             | 20   |
| <b>Recognised in equity:</b>                                                       |                         |       |                           |        |                       |      |
| <b>Remeasurement gain or loss due to:</b>                                          |                         |       |                           |        |                       |      |
| Return on plan assets, excluding the interest income and adjusted guaranteed value |                         |       | 257                       | 45     | 257                   | 45   |
| Changes in financial assumptions                                                   | -188                    | -33   |                           |        | -188                  | -33  |
| Changes in demographic assumptions                                                 | -46                     | -6    |                           |        | -46                   | -6   |
| Experience adjustments                                                             | -27                     | -17   |                           |        | -27                   | -17  |
| <b>Total remeasurement gain or loss</b>                                            | <b>-261</b>             | -56   | <b>257</b>                | 45     | <b>-4</b>             | -11  |
| Currency translation differences                                                   | -1                      | -7    | 1                         | 3      |                       | -4   |
| <b>Total</b>                                                                       | <b>-262</b>             | -63   | <b>258</b>                | 48     | <b>-4</b>             | -15  |
| <b>Other</b>                                                                       |                         |       |                           |        |                       |      |
| Contributions paid by the employer to the plan                                     |                         |       | -58                       | -63    | -58                   | -63  |
| Benefits paid                                                                      | -105                    | -105  | 105                       | 105    |                       |      |
| Transfer to liabilities held for sale                                              |                         | -8    |                           |        |                       | -8   |
| <b>Total</b>                                                                       | <b>-105</b>             | -113  | <b>47</b>                 | 42     | <b>-58</b>            | -71  |
| <b>At 31 December</b>                                                              | <b>3,637</b>            | 3,917 | <b>-3,231</b>             | -3,471 | <b>406</b>            | 446  |
| <b>Classification</b>                                                              |                         |       |                           |        |                       |      |
| Non-current assets                                                                 |                         |       |                           |        | 8                     | 10   |
| Non-current liabilities                                                            |                         |       |                           |        | 414                   | 456  |

At year-end 2018, EUR 230 million of the EUR 3,637 million gross pension liability had not yet been funded (2017: EUR 239 million of the EUR 3,917 million was not yet funded). The contributions to the plans of EUR 58 million are the premiums paid by FrieslandCampina in 2018, of which EUR 16 million relates to 2017.

**Income and expenses under long-term employee benefits recognised in the income statement**

|                                                                                      | 2018        | 2017 |
|--------------------------------------------------------------------------------------|-------------|------|
| Current service cost                                                                 | -13         | -13  |
| Pension plan adjustment                                                              |             | 4    |
| Interest expense or income                                                           | -8          | -10  |
| Administration costs                                                                 | -1          | -1   |
| <b>Defined benefit cost recognised in the income statement</b>                       | <b>-22</b>  | -20  |
| Benefit cost for defined contribution plans                                          | -87         | -86  |
| Employees' share in pension costs                                                    | 10          | 10   |
| <b>Benefit cost recognised in the income statement</b>                               | <b>-99</b>  | -96  |
| Expenses under other long-term employee benefits                                     | -1          | -1   |
| <b>Expenses under long-term employee benefits recognised in the income statement</b> | <b>-100</b> | -97  |

FrieslandCampina expects to contribute EUR 41 million towards its defined benefit plans in 2019, EUR 15 million of which concerns 2018. Of the remaining EUR 26 million, EUR 7 million is for the plans that provide Dutch employees indexation on the benefits accrued up to 2015. In 2019, FrieslandCampina expects to contribute EUR 88 million towards the defined contribution plans, primarily related to the collective and individual defined contribution plans that apply for Dutch employees.

#### Disaggregation of the fair value of plan assets into asset classes:

|                                               | 2018                 |                    |                         | 2017                 |                    |                         |
|-----------------------------------------------|----------------------|--------------------|-------------------------|----------------------|--------------------|-------------------------|
|                                               | %                    | %                  | %                       | %                    | %                  | %                       |
|                                               | Company pension fund | Insurance contract | Foreign pension schemes | Company pension fund | Insurance contract | Foreign pension schemes |
| <b>Shares</b>                                 |                      |                    |                         |                      |                    |                         |
| - North America                               | 9                    |                    |                         | 9                    |                    |                         |
| - Europe                                      | 4                    |                    |                         | 4                    |                    |                         |
| - Japan                                       | 2                    |                    |                         | 2                    |                    |                         |
| - Emerging Markets                            | 2                    |                    |                         | 2                    |                    |                         |
| - Other                                       | 1                    |                    |                         | 1                    |                    |                         |
| <b>Fixed income securities</b>                |                      |                    |                         |                      |                    |                         |
| - Investment grade (BBB rating or higher)     | 20                   |                    |                         | 20                   |                    |                         |
| - Non-investment grade (BB rating or lower)   | 4                    |                    |                         | 4                    |                    |                         |
| <b>Other investments</b>                      |                      |                    | 3                       |                      |                    | 3                       |
| <b>Guaranteed value of insurance contract</b> |                      | 55                 |                         |                      | 55                 |                         |
| <b>Total</b>                                  | <b>42</b>            | <b>55</b>          | <b>3</b>                | <b>42</b>            | <b>55</b>          | <b>3</b>                |

At year-end 2018, the plan assets in the company pension fund and the guaranteed value of the insurance contract amounted to 42% and 55% of the total plan assets respectively (2017: 42% and 55%). Of the plan assets in the company pension fund approximately EUR 15 million is invested in subordinated bonds of Zuivelcoöperatie FrieslandCampina U.A. Of the interest rate risk relating to the company pension fund, 60% is hedged. Of the hedged amount, at the end of 2018 50% is hedged by means of government bonds and 50% 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 65% of these investments are fixed-income securities, 28% are shares and 7% 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 comprising 3% of the total amount (2017: 3%) are mainly related to foreign pension plans and largely consist of insurance contracts.

#### Sensitivity analysis

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

| Effect on the gross pension liability at 31 December | 2018     |          | 2017     |          |
|------------------------------------------------------|----------|----------|----------|----------|
|                                                      | Increase | Decrease | Increase | Decrease |
| Change of 0.25% to discount rate                     | -148     | 158      | -168     | 180      |
| Change of 0.25% to indexation of former participants | 125      | -118     | 143      | -135     |
| Change of 1 year to life expectancy                  | 138      | -137     | 155      | -153     |

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

2018

|                                         | Property, plant and equipment | Intangible assets | Employee benefits | Inventories, trade receivables, derivatives, trades payables and provisions | Unused tax losses and facilities | Total     |
|-----------------------------------------|-------------------------------|-------------------|-------------------|-----------------------------------------------------------------------------|----------------------------------|-----------|
| At 1 January                            | -67                           | -15               | 71                | 88                                                                          | 43                               | 120       |
| Acquired through acquisition            |                               | -2                |                   |                                                                             |                                  | -2        |
| Recognised through the income statement | 5                             | -3                | -11               |                                                                             | -27                              | -36       |
| Recognised in equity                    |                               |                   | -7                | -1                                                                          | 13                               | 5         |
| Currency translation differences        | 3                             | 10                |                   |                                                                             | -1                               | 12        |
| Other                                   |                               |                   |                   |                                                                             |                                  |           |
| <b>At 31 December</b>                   | <b>-59</b>                    | <b>-10</b>        | <b>53</b>         | <b>87</b>                                                                   | <b>28</b>                        | <b>99</b> |

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

|                                                                              | Assets     | Liabilities | Net       |
|------------------------------------------------------------------------------|------------|-------------|-----------|
| Property, plant and equipment                                                | 2          | 61          | -59       |
| Intangible assets                                                            | 83         | 93          | -10       |
| Employee benefits                                                            | 56         | 3           | 53        |
| Inventories, trade receivables, derivatives, accounts payable and provisions | 93         | 6           | 87        |
| Unused tax losses and facilities                                             | 28         |             | 28        |
| Netting                                                                      | -33        | -33         |           |
| <b>Net deferred tax asset</b>                                                | <b>229</b> | <b>130</b>  | <b>99</b> |

2017

|                                         | 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                            | -71                           | -38               | 84                | 108                                                                         | 40                               | 123        |
| Recognised through the income statement | -4                            | 3                 | -10               | -16                                                                         | -15                              | -42        |
| Recognised in equity                    |                               |                   | -3                | 4                                                                           | 18                               | 19         |
| Currency translation differences        | 8                             | 20                |                   | -8                                                                          |                                  | 20         |
| <b>At 31 December</b>                   | <b>-67</b>                    | <b>-15</b>        | <b>71</b>         | <b>88</b>                                                                   | <b>43</b>                        | <b>120</b> |

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

|                                                                              | Assets     | Liabilities | Net        |
|------------------------------------------------------------------------------|------------|-------------|------------|
| Property, plant and equipment                                                | 8          | 75          | -67        |
| Intangible assets                                                            | 104        | 119         | -15        |
| Employee benefits                                                            | 75         | 4           | 71         |
| Inventories, trade receivables, derivatives, accounts payable and provisions | 90         | 2           | 88         |
| Unused tax losses and facilities                                             | 43         |             | 43         |
| Netting                                                                      | -19        | -19         |            |
| <b>Net deferred tax asset</b>                                                | <b>301</b> | <b>181</b>  | <b>120</b> |

At the end of the financial year, the unused tax losses and facilities amounted to EUR 28 million (2017: EUR 43 million) of which EUR 21 million (2017: EUR 21 million) concerned unused tax losses and EUR 7 million (2017: EUR 22 million) concerned unused facilities. Based on long-term planning, it is expected that it will be possible to offset these against future profits.

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

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

|                         | 2018       | 2017 |
|-------------------------|------------|------|
| Unrecognised tax losses | 115        | 58   |
| Unrecognised facilities | 73         | 40   |
|                         | <b>188</b> | 98   |

At the end of the financial year, the nominal value of the unused tax losses amounts to EUR 449 million (2017: EUR 353 million). The increase of the unused tax losses compared to last year is mainly due to the recognition of the earlier non-recorded losses in Germany. Of these unrecognised tax losses, EUR 151 million expire within 10 years (2017: EUR 154 million). The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules.

## 19 Provisions

|                                           | 2018          |                  |            | 2017          |                  |       |
|-------------------------------------------|---------------|------------------|------------|---------------|------------------|-------|
|                                           | Restructuring | Other provisions | Total      | Restructuring | Other provisions | Total |
| At 1 January                              | 62            | 14               | 76         | 28            | 22               | 50    |
| Additions charged to the income statement | 32            | 34               | 66         | 49            | 2                | 51    |
| Release to the income statement           | -4            | -5               | -9         | -5            | -6               | -11   |
| Utilisations                              | -32           | -1               | -33        | -10           | -4               | -14   |
| <b>At 31 December</b>                     | <b>58</b>     | <b>42</b>        | <b>100</b> | 62            | 14               | 76    |
| Non-current provisions                    | 8             | 6                | 14         | 9             | 5                | 14    |
| Current provisions                        | 50            | 36               | 86         | 53            | 9                | 62    |
|                                           | <b>58</b>     | <b>42</b>        | <b>100</b> | 62            | 14               | 76    |

### Restructuring provisions

The restructuring provisions at year-end 2018 are primarily related to the announced closures of the production facilities in Bree (Belgium), Saint-Paul-en-Jarez and Sénas (France) and Gütersloh (Germany) and FrieslandCampina's organisation transformation programme initiated in 2017. Restructuring provisions, mainly relating to severance payments and associated expenses, were recognised for this purpose in 2017 and 2018.

The utilisation in 2018 are primarily related to provisions for the sites in Germany, and FrieslandCampina's organisational transformation programme.

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

### Other provisions

From time to time, FrieslandCampina is involved in legal and arbitration proceedings arising in the ordinary course of business. Where specific issues arise, provisions are made to the extent necessary. FrieslandCampina is involved in a number of ongoing investigations by national competition authorities for which a provision has been made. Due to the nature of the legal proceedings the timing of utilisation of these provisions is uncertain.

## 20 Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

|                                                                   |                  |                         | 2018            | 2017            |
|-------------------------------------------------------------------|------------------|-------------------------|-----------------|-----------------|
|                                                                   | Year of maturity | % Nominal interest rate | Carrying amount | Carrying amount |
| Syndicate (variable interest)                                     | 2018-2019        | 0.3                     | 20              | 50              |
| European Investment Bank (fixed interest)                         | 2019-2026        | 0.8                     | 150             | 100             |
| International Finance Corporation (variable interest)             | 2019-2026        | 4.1                     | 87              | 83              |
| Other borrowings from credit institutions                         |                  |                         | 62              | 121             |
| <b>Borrowings from credit institutions</b>                        |                  |                         | <b>319</b>      | 354             |
| Private Placement (fixed interest)                                | 2020             | 5.7                     | 116             | 110             |
| Private Placement (fixed interest)                                | 2022             | 4.0                     | 70              | 67              |
| Private Placement (fixed interest)                                | 2024             | 4.2                     | 127             | 122             |
| Private Placement (fixed interest)                                | 2018-2027        | 4.0                     | 160             | 170             |
| <b>Borrowings from institutional investors</b>                    |                  |                         | <b>473</b>      | 469             |
| Green bonds (fixed interest)                                      | 2021-2026        | 1.4                     | 300             | 300             |
| <b>Borrowings from holders of green bonds</b>                     |                  |                         | <b>300</b>      | 300             |
| Euro commercial paper (variable interest)                         | 2018-2019        | -0.3                    | 290             | 221             |
| Belgium commercial paper (variable interest)                      | 2018             | 0.0                     |                 | 25              |
| Other uncommitted facilities (variable interest)                  | 2018-2019        | 0.1                     | 100             | 70              |
| <b>Uncommitted facilities</b>                                     |                  |                         | <b>390</b>      | 316             |
| Fonterra Finance Corporation Ltd. (variable interest)             | 2018-2025        | 2.1                     | 13              | 14              |
| China Huishan Dairy Holdings (Hong Kong) Ltd. (variable interest) | 2018             | 4.4                     |                 | 16              |
| Borrowings from member dairy farmers (variable interest)          | 2018-2019        | 0.4                     | 22              | 24              |
| Bank overdrafts (variable interest)                               | 2018-2019        | 2.1                     | 132             | 163             |
| Financial lease liabilities (fixed interest)                      | 2018-2037        | 5.6                     | 4               | 5               |
| Capitalised issue costs                                           | 2018-2027        |                         | -4              | -5              |
| Other interest-bearing borrowings                                 |                  |                         | 2               | 4               |
| <b>Other</b>                                                      |                  |                         | <b>169</b>      | 221             |
| <b>Interest-bearing borrowings</b>                                |                  |                         | <b>1,651</b>    | 1,660           |
| Recognised under non-current interest-bearing borrowings          |                  |                         | 1,035           | 999             |
| Recognised under current interest-bearing borrowings              |                  |                         | 616             | 661             |

The nominal value of the interest-bearing borrowings does not deviate from the carrying value. The average interest paid on the interest-bearing borrowings, including the effect of the cross currency swaps at year-end 2018 is 1.9% (2017: 2.2%).

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

### Borrowings from credit institutions

In the second half of 2017, FrieslandCampina adjusted the credit facility, negotiated with a syndicate of credit institutions, on the basis of more favourable conditions due to the issue of a public credit rating, whereby the facility was reduced to EUR 1 billion with a 5-year term. In the second half of 2018, FrieslandCampina exercised the option of extending this facility to October 2023. On 31 December 2018, EUR 20 million of the credit facility is utilised (2017: EUR 50 million) and is entirely classified as current.

In 2016 FrieslandCampina agreed a loan facility capped at EUR 150 million with the European Investment Bank (EIB). This loan is being used for research into and development of new products. As at 31 December 2018, the entire amount of EUR 150 million was drawn down from this loan (2017: EUR 100 million). The loan consists of three parts with fixed interest rates. The terms range from 3 to 10 years. An amount of EUR 146 million of the loans is recorded under the non-current interest-bearing borrowings and an amount of EUR 4 million is classified as current. The issue costs of the loans are capitalised and are amortised over the term of the loans.

FrieslandCampina has negotiated a loan with International Finance Corporation (IFC) for USD 100 million in support of the acquisition of a 51% interest in Engro Foods. An amount of EUR 12 million of the IFC obligations were classified as current as at the end of December 2018.

The USD repayments and interest payment obligations to IFC have been converted to EUR borrowings with a fixed interest rate (also see Note 21).

#### **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 543 million (2017: USD 563 million). In 2018, EUR 17 million was repaid (2017: EUR 151 million).

On 31 December 2018, the total amount of borrowings from institutional investors (private placements) classified as non-current amounts to EUR 455 million (2017: EUR 452 million) and an amount of EUR 18 million (2017: EUR 17 million) is recognised as current.

The USD repayments and interest payment obligations associated with the private placement obligations were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps. See Note 21.

#### **Borrowings from holders of green bonds**

FrieslandCampina issued green bonds (Green Schuldschein) amounting to EUR 300 million (2017: EUR 300 million), consisting of four tranches at fixed interest rates. The terms vary between 5 and 10 years. These bonds are recognised in the non-current interest-bearing borrowings; issue costs are capitalised and amortised over the duration of the bonds.

#### **Uncommitted facilities**

In 2017, FrieslandCampina established a Euro Commercial Paper Programme (ECP). The maximum term of the paper issued is 12 months. At year-end 2018, the drawings under the ECP Programme amounted to EUR 290 million (2017: EUR 221 million). An amount of EUR 100 million was drawn down from other uncommitted facilities (2017: EUR 70 million).

#### **Borrowings from member dairy farmers**

The borrowings from member dairy farmers amounting to EUR 22 million (2017: EUR 24 million) concern three year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers against the payment of a 0.25% interest penalty.

#### **Financial lease liabilities**

|                       | <b>2018</b>                   |                                         | <b>2017</b>                   |                                         |
|-----------------------|-------------------------------|-----------------------------------------|-------------------------------|-----------------------------------------|
|                       | Future minimum lease payments | Present value of minimum lease payments | Future minimum lease payments | Present value of minimum lease payments |
| Less than one year    | 1                             | 1                                       | 2                             | 2                                       |
| Between 1 and 5 years | 2                             | 2                                       | 2                             | 2                                       |
| More than five years  | 1                             | 1                                       | 2                             | 1                                       |
|                       | <b>4</b>                      | <b>4</b>                                | <b>6</b>                      | <b>5</b>                                |

**21 Other financial liabilities**

|                                                | 2018      | 2017 |
|------------------------------------------------|-----------|------|
| <b>Non-current other financial liabilities</b> |           |      |
| Derivatives                                    | 10        | 33   |
| Contingent considerations                      | 3         |      |
| Put option liabilities                         | 50        | 76   |
| Other                                          | 3         |      |
|                                                | <b>66</b> | 109  |
| <b>Current other financial liabilities</b>     |           |      |
| Derivatives                                    | 4         | 4    |
| Contingent considerations                      | 3         |      |
|                                                | <b>7</b>  | 4    |

The long-term put option obligation relates to the co-financing of the acquisition of a 51% interest in Engro Foods. See Note 26 for a further explanation.

**Derivatives**

In the statement of financial position the hedging derivatives are recognised in current and non-current other financial assets and other financial liabilities. An explanation of FrieslandCampina's goal, course of action and policy regarding the use of derivatives and other financial instruments is included in Note 26.

**Hedging activities**

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

**Hedging activities**

|                                                           |               |           |             | 2017                        |
|-----------------------------------------------------------|---------------|-----------|-------------|-----------------------------|
|                                                           | Maturity date | Assets    | Liabilities | Contract volume at year-end |
| Cross currency swaps                                      | 2018          |           | 1           | 17                          |
| Cross currency swaps                                      | after 2018    | 14        | 30          | 535                         |
| <b>Total cash flow hedges subject to hedge accounting</b> |               | <b>14</b> | <b>31</b>   |                             |
| Cross currency swaps                                      | after 2018    | 1         |             | 26                          |
| Interest rate swaps                                       | after 2018    |           | 2           | 250                         |
| Forward exchange contracts                                | 2018          | 4         | 4           | 556                         |
| Commodity swaps                                           | 2018          | 4         |             | 20                          |
| <b>Derivatives not subject to hedge accounting</b>        |               | <b>9</b>  | <b>6</b>    |                             |
| <b>Total derivatives</b>                                  |               | <b>23</b> | <b>37</b>   |                             |
| Classified as current                                     |               | 8         | 4           |                             |
| Classified as non-current                                 |               | 15        | 33          |                             |

**Cash flow hedges**

The USD repayments and interest payment obligations associated with the private placement obligations and the IFC obligations totalling USD 543 million (2017: USD 563 million) and USD 100 million (2017: USD 100 million) were converted into EUR obligations with a fixed interest rate through means of cross-currency swaps. The cross currency swaps were negotiated to hedge the cash flows and are subject to cash flow hedge accounting. The cross currency swaps are measured at fair value. The portion of the profit or loss realised on these hedge instruments that qualifies as an effective hedge is recognised directly in equity. The private placement obligations were fixed at EUR 416 million and the IFC obligations were fixed at EUR 94 million on the basis of the above-referenced swaps.

For the above-referenced hedges, to which hedge accounting is applied, the hedge accounting documentation requirements are met in accordance with IFRS 9 (IAS 39 up until 31 December 2017) and effectiveness tests are conducted in advance and on every reporting date to confirm that there is an economic relationship between the derivative and the hedged item. The characteristics of the cross currency swap, such as instalments, interest rates and maturity date are matched with the loan at the start of the hedging relationship.

No significant ineffectiveness in the cashflow hedges occurred in 2018. As of year-end 2018 a cash flow hedge-reserve of EUR -25 million (2017: EUR -25 million) was recognised as part of equity.

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

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

**Derivatives not subject to hedge accounting**

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

The interest rate swaps are entered into to convert the variable interest-bearing borrowings of EUR 250 million (2017: EUR 250 million) into fixed interest-bearing borrowings.

Also, derivatives were entered into to hedge part of the price risk on future purchases and sales of milk powder and butter. For a further explanation, see Note 26.

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

**22 Trade and other payables**

|                                                                                  | <b>2018</b>  | 2017         |
|----------------------------------------------------------------------------------|--------------|--------------|
| Owed to member dairy farmers                                                     | 442          | 521          |
| Trade payables                                                                   | 1,531        | 1,520        |
| Payables related to tax (excluding income tax) and social security contributions | 49           | 64           |
| Payables to Zuivelcoöperatie FrieslandCampina U.A.                               |              | 60           |
| Other payables                                                                   | 719          | 726          |
|                                                                                  | <b>2,741</b> | <b>2,891</b> |

As part of other payables, contract liabilities of EUR 3 million are primarily related to deferred income.

**23 Commitments and contingencies**

|                                       |            |             |            | 2018       |
|---------------------------------------|------------|-------------|------------|------------|
|                                       | 2019       | 2020 - 2023 | After 2023 | Total      |
| Operational lease commitments         | 57         | 126         | 54         | 237        |
| Purchase commitments for fixed assets | 112        | 6           |            | 118        |
| Other commitments                     | 41         | 48          | 6          | 95         |
|                                       | <b>210</b> | <b>180</b>  | <b>60</b>  | <b>450</b> |
|                                       |            |             |            | 2017       |
|                                       | 2018       | 2019 - 2022 | After 2022 | Total      |
| Operational lease commitments         | 57         | 113         | 33         | 203        |
| Purchase commitments for fixed assets | 107        | 2           |            | 109        |
| Other commitments                     | 50         | 37          | 1          | 88         |
|                                       | <b>214</b> | <b>152</b>  | <b>34</b>  | <b>400</b> |

**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 Zuivelcoöperatie FrieslandCampina U.A. to pay member dairy farmers who terminate their membership a lump-sum leave fee of EUR 5.00 per 100 kilograms of milk delivered in the year prior to the year in which the application for eligibility for the lump-sum leave fee is made. The eligibility requirement for the lump-sum leave fee is that the member dairy farmer must become a supplier to another purchaser of raw milk in the Netherlands.

The 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 must 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 (year-end 2018: 0.2 billion) 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 required 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 0.8 billion kilograms of the available 1.0 billion kilograms of milk for these market parties. FrieslandCampina and A-ware signed a contract for the supply of the remaining 0.2 billion kilograms of milk.

**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 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**

At 31 December 2018, FrieslandCampina has provided bank guarantees to third parties amounting to a total of EUR 17 million (2017: EUR 20 million).

**Contingent tax liabilities**

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

FrieslandCampina estimates the contingent tax liabilities as at 31 December 2018, that are being investigated by tax authorities, at a total of EUR 58 million (2017: EUR 25 million), of which the largest part relates to the treatment of sales tax in Pakistan.

**Legal claims**

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

**Contingent assets**

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

**24 Transactions with related parties**

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

See Note 25 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 2018, this was 10.4 billion kilograms (2017: 10.7 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.

Pursuant to the reserve policy, an interim payment was made on the basis of the Company's results for the first half of the year and the quantity of milk supplied. The interim payout amounts to 75% of the pro forma performance premium for the value of the quantity of milk supplied during the first half of the year. The final settlement will take place in March 2019 based on the Company's results for the financial year and the total quantity of milk supplied. See Note 16 for an description of the reserve policy.

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

The relations are specified in the table below:

|                                                         | 2018 | 2017 |
|---------------------------------------------------------|------|------|
| Interest on the Cooperative loan                        | 9    | 9    |
| Interest on member bonds                                | 5    | 5    |
| Other income                                            | 8    | 8    |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A. | 11   |      |
| Payables to Zuivelcoöperatie FrieslandCampina U.A.      |      | 60   |
| Cooperative loan                                        | 295  | 295  |
| Member bonds                                            | 170  | 180  |

#### **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:

| <b>Joint ventures</b>                                       | 2018 | 2017 |
|-------------------------------------------------------------|------|------|
| Purchase of raw materials, consumables used and commodities | 20   | 17   |
| Sale of raw materials, consumables used and commodities     | 3    | 2    |
| Receivables from joint ventures                             | 3    | 7    |
| Payables to joint ventures                                  | 2    | 3    |

| <b>Associates</b>                                           | 2018 | 2017 |
|-------------------------------------------------------------|------|------|
| Purchase of raw materials, consumables used and commodities | 52   | 45   |
| Sale of raw materials, consumables used and commodities     | 80   | 83   |
| Receivables from associates                                 | 11   | 6    |
| Payables to associates                                      | 5    | 3    |

#### **Member dairy farmers**

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

|                                      | 2018  | 2017  |
|--------------------------------------|-------|-------|
| Purchase of raw materials            | 3,933 | 4,346 |
| Interest on member bonds             | 42    | 40    |
| Member bonds                         | 1,439 | 1,416 |
| Borrowings from member dairy farmers | 464   | 545   |

#### **Supervisory Board and Executive Board**

The members of the Supervisory Board who are also a member of the Cooperative's Board enter into transactions with FrieslandCampina in their capacity as dairy farmers, including the supply of milk. This results in a liability as at 31 December pursuant to milk supply allowances. These Supervisory Board members are also holders of member bonds. The table below sets out the transactions of the member dairy farmers who were a Supervisory Board member during 2018 and the balance sheet positions with the members who were a Supervisory Board member as at 31 December 2018:

|                           | 2018 | 2017 |
|---------------------------|------|------|
| Purchase of raw materials | 4    | 4    |
| Member bonds              | 2    | 2    |

There were no transactions in 2018 between FrieslandCampina and the Executive Board, other than remuneration. See Note 25 for the remuneration of the Supervisory Board and the Executive Board.

## 25 Remuneration of the Supervisory Board and the Executive Board

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

|                                     | 2018       | 2017 |
|-------------------------------------|------------|------|
| <b>Supervisory Board</b>            |            |      |
| Short-term remuneration             | 1.1        | 1.1  |
|                                     | <b>1.1</b> | 1.1  |
| <b>Executive board <sup>1</sup></b> |            |      |
| Short-term remuneration             | 1.7        | 5.5  |
| Long-term remuneration              | 0.7        | 1.0  |
| Termination benefits <sup>2</sup>   |            | 7.0  |
| Pension plans                       | 0.2        | 0.6  |
|                                     | <b>2.6</b> | 14.1 |

<sup>1</sup> As a result of the changed management structure, the composition of the Executive Board changed effective 1 January 2018. See page 32 of the Annual report for a further explanation.

<sup>2</sup> The payment on termination of employment in 2017 contains a provision of EUR 2.2 million for special wage taxes (Article 32bb of the 'Wet op de loonbelasting 1964').

## 26 Financial risk management and financial instruments

### Capital management

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

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

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

### Active risk management

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

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

**Financial risk management**

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

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

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

**Netting of financial instruments**

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

FrieslandCampina has implemented multiple cash pool systems that facilitate a more efficient management of the daily working capital requirements of the participating entities. The netting mechanisms of these cash pools are managed by an external financial institution, whereby daily clearance was implemented partially in 2018, as a result of which no difference exists anymore between the gross outstanding amount and the net outstanding amount at the financial institution. At year-end 2018, EUR 1,537 million (2017: EUR 7,967 million) of the gross outstanding amount was still reported on a net basis in the financial statements.

**Currency risks**

As FrieslandCampina operates worldwide, a considerable portion of its assets, liabilities and results is sensitive to currency fluctuations. The purpose of the policy for managing transaction risks is to limit the effect of currency fluctuations on financial performance. 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 wherever possible, the risk arising from a currency mismatch between assets and liabilities is restricted. The solvency requirements that FrieslandCampina imposes on its foreign subsidiaries do, however, result in a degree of currency translation risk.

**Exposure to currency risk**

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

|                                            | 2018      |            |            |            |           | 2017    |         |         |         |         |
|--------------------------------------------|-----------|------------|------------|------------|-----------|---------|---------|---------|---------|---------|
|                                            | EUR/USD   | EUR/CNY    | NGN/USD    | IDR/USD    | EUR/HKD   | EUR/USD | EUR/CNY | NGN/USD | IDR/USD | SGD/HKD |
| Receivables                                | 183       | 47         | 1          |            | 55        | 231     | 58      | 1       | 1       | 70      |
| Cash and cash equivalents                  | 4         |            | 2          |            |           | 2       |         | 2       | 2       |         |
| Liabilities                                | 149       | 35         | 70         | 24         |           | 110     | 26      | 84      | 27      |         |
| <b>Net statement of financial position</b> | <b>38</b> | <b>12</b>  | <b>-67</b> | <b>-24</b> | <b>55</b> | 123     | 32      | -81     | -24     | 70      |
| Forward exchange contracts                 | -33       | 49         | -15        |            | 41        | 135     | -4      | -6      |         | 60      |
| <b>Net exposure 31 December</b>            | <b>71</b> | <b>-37</b> | <b>-52</b> | <b>-24</b> | <b>14</b> | -12     | 36      | -75     | -24     | 10      |

**Sensitivity analysis**

|                             |   |    |    |    |   |    |   |    |    |   |
|-----------------------------|---|----|----|----|---|----|---|----|----|---|
| Impact on profit before tax | 4 | -2 | -3 | -1 | 1 | -1 | 2 | -4 | -1 | 1 |
|-----------------------------|---|----|----|----|---|----|---|----|----|---|

**Sensitivity analysis**

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

The above table illustrates the impact of a 5% change in the specified currency (USD, CNY and HKD) in relation to a local currency (EUR, NGN and IDR) on the profit before tax. A 5% change in exchange rate is considered a realistic possibility. This analysis is based on foreign currency exchange rate variances that FrieslandCampina considered to be reasonably possible at the reporting date. The analysis assumes that all other variables, in particular interest rates, remain constant.

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

**Interest rate risk**

The objective of interest rate risk management is to limit the effect of interest rate fluctuations on profit and to reduce interest expense where possible. Interest rate derivatives are used to match the effective interest in borrowings to the intended interest rate risk profile. The treasury policy specifies that the percentage characterised by a fixed interest rate, or that is fixed by means of a hedge, varies with a bandwidth of 40%-80% with a minimum time horizon of at least three full calendar years. The percentage which is characterised by a fixed interest percentage or is fixed by means of a hedge is at 31 December 2018 78% (2017: 74%). The overview below shows the situation at the end of the year:

|                               | 2018                                 |                                      | 2017                                 |                                      |
|-------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
|                               | Carrying amount<br>excluding hedging | Carrying amount<br>including hedging | Carrying amount<br>excluding hedging | Carrying amount<br>including hedging |
| <b>Interest on borrowings</b> |                                      |                                      |                                      |                                      |
| Fixed rate                    | 950                                  | 1,287                                | 892                                  | 1,224                                |
| Variable rate                 | 701                                  | 364                                  | 768                                  | 436                                  |
|                               | <b>1,651</b>                         | <b>1,651</b>                         | 1,660                                | 1,660                                |

FrieslandCampina carried out a sensitivity analysis based on the impact of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicates that, if interest had risen or fallen by 0.5%, the cumulative interest charges for the current year would not have been significantly higher or lower.

**Liquidity risk**

FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities, which is also maintained as a backup for short-term debt securities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities totaling EUR 2,011 million (2017: EUR 2,002 million). Of these facilities EUR 980 million (2017: EUR 1,000 million) was unused at the end of 2018, which is substantially more than the minimum credit headroom of EUR 350 million required according to FrieslandCampina's financial policy.

**Cash flows on financial liabilities**

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

|                                             |                 |                        | <b>2018</b>   |             |             |
|---------------------------------------------|-----------------|------------------------|---------------|-------------|-------------|
|                                             | Carrying amount | Contractual cash flows | 2019          | 2020 - 2023 | After 2023  |
| <b>Non-derivative financial liabilities</b> |                 |                        |               |             |             |
| Interest-bearing borrowings                 | 1,647           | -1,772                 | -633          | -695        | -444        |
| Financial lease liabilities                 | 4               | -4                     | -1            | -2          | -1          |
| Trade and other payables                    | 2,741           | -2,741                 | -2,741        |             |             |
| Put option liabilities                      | 50              | -50                    |               |             | -50         |
| Contingent considerations                   | 6               | -6                     | -3            | -3          |             |
| <b>Derivates</b>                            |                 |                        |               |             |             |
| Interest rate swaps                         | 2               | -2                     | -2            |             |             |
| Cross currency swaps - inflow               | 10              | 319                    | 32            | 137         | 150         |
| Cross currency swaps - outflow              |                 | -328                   | -29           | -143        | -156        |
| Forward exchange - inflow                   | 2               | 166                    | 166           |             |             |
| Forward exchange - outflow                  |                 | -169                   | -169          |             |             |
|                                             | <b>4,462</b>    | <b>-4,587</b>          | <b>-3,380</b> | <b>-706</b> | <b>-501</b> |
|                                             |                 |                        |               |             |             |
|                                             |                 |                        |               |             | <b>2017</b> |
|                                             | Carrying amount | Contractual cash flows | 2018          | 2019 - 2022 | After 2022  |
| <b>Non-derivative financial liabilities</b> |                 |                        |               |             |             |
| Interest-bearing borrowings                 | 1,655           | -1,818                 | -681          | -452        | -685        |
| Financial lease liabilities                 | 5               | -6                     | -2            | -2          | -2          |
| Trade and other payables                    | 2,891           | -2,891                 | -2,891        |             |             |
| Put option liabilities                      | 76              | -76                    |               |             | -76         |
| <b>Derivates</b>                            |                 |                        |               |             |             |
| Interest rate swaps                         | 2               | -3                     | -2            | -1          |             |
| Cross currency swaps - inflow               | 31              | 484                    | 34            | 255         | 195         |
| Cross currency swaps - outflow              |                 | -516                   | -30           | -271        | -215        |
| Forward exchange - inflow                   | 4               | 339                    | 339           |             |             |
| Forward exchange - outflow                  |                 | -340                   | -340          |             |             |
|                                             | <b>4,664</b>    | <b>-4,675</b>          | <b>-3,573</b> | <b>-471</b> | <b>-631</b> |

**Credit Risk**

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

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

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

Thanks to the spread of geographical areas and product groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer accounts for more than 2% (2017: 3%) of revenue). The total write-offs of trade receivables amount to less than 0.1% of annual revenue. For further information regarding trade receivables, see Note 13.

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

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

|                                            | 2018           |                             | 2017           |                             |
|--------------------------------------------|----------------|-----------------------------|----------------|-----------------------------|
|                                            | Cash positions | Contract volume derivatives | Cash positions | Contract volume derivatives |
| <b>Credit rating financial institution</b> |                |                             |                |                             |
| AA                                         | 7              | 127                         | 2              | 93                          |
| A                                          | 264            | 924                         | 260            | 1,226                       |
| BBB                                        | 16             | 34                          | 13             | 79                          |
| < BBB                                      | 45             | 13                          | 33             | 6                           |
| No rating                                  | 24             | 6                           | 48             |                             |
|                                            | <b>356</b>     | <b>1,104</b>                | 356            | 1,404                       |

#### Covenant guidelines

Existing guidelines for financial ratios:

|                       |       |
|-----------------------|-------|
| Net Debt / EBITDA     | < 3,5 |
| EBITDA / Net Interest | > 3,5 |

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

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

|                                                         | 2018         | 2017         |
|---------------------------------------------------------|--------------|--------------|
| Non-current interest-bearing borrowings                 | 1,035        | 999          |
| Current interest-bearing borrowings                     | 616          | 661          |
| Receivables from Zuivelcoöperatie FrieslandCampina U.A. | -11          |              |
| Payables to Zuivelcoöperatie FrieslandCampina U.A.      |              | 60           |
| Cash and cash equivalents                               | -356         | -356         |
| Cash and cash equivalents not freely available          | 3            | 36           |
| <b>Net debt</b>                                         | <b>1,287</b> | <b>1,400</b> |

#### 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.

|                             |            | 2018                |      |             |            |
|-----------------------------|------------|---------------------|------|-------------|------------|
|                             | Fair value | Expected cash flows | 2019 | 2020 - 2023 | After 2023 |
| <b>Cross currency swaps</b> |            |                     |      |             |            |
| Assets                      | 21         | 22                  | 3    | 21          | -2         |
| Liabilities                 | 10         | -9                  | 3    | -6          | -6         |
|                             |            |                     |      |             | 2017       |
|                             | Fair value | Expected cash flows | 2018 | 2019 - 2022 | After 2022 |
| <b>Cross currency swaps</b> |            |                     |      |             |            |
| Assets                      | 14         | 15                  | 1    | 14          |            |
| Liabilities                 | 31         | -32                 | 3    | -16         | -19        |

#### Classification and measurement of financial instruments under IFRS 9

Under IFRS 9, the classification of financial liabilities as applied under IAS 39 largely remains unchanged. In relation to financial assets, the classifications applied under IAS 39 were changed. Financial assets that at the end of 2017 were classified as 'Loans and receivables' under IAS 39, are now classified as 'Financial assets at amortised cost' under IFRS 9. Financial assets that at the end of 2017 were classified as 'Fair value of hedging instruments', are now classified as 'Fair value-hedge accounting instruments' or as 'Mandatorily at fair value through profit or loss' under IFRS 9.

The new classification under IFRS 9 did not have a significant impact on the measurement of financial assets as at 1 January 2018.

#### 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.

2018

|                                                             | Note | Fair value<br>- hedge<br>account-<br>ing instru-<br>ments | Manda-<br>torily at<br>FVTPL | FVOCI<br>- equity<br>instru-<br>ments | Financial<br>assets at<br>amortised<br>cost | Other<br>financial<br>liabilities | Total<br>carrying<br>amount | Level 1 | Level 2 | Level 3 | Total fair<br>value |
|-------------------------------------------------------------|------|-----------------------------------------------------------|------------------------------|---------------------------------------|---------------------------------------------|-----------------------------------|-----------------------------|---------|---------|---------|---------------------|
| <b>Financial assets not<br/>measured at fair value</b>      |      |                                                           |                              |                                       |                                             |                                   |                             |         |         |         |                     |
| Loans issued - fixed rate                                   | (11) |                                                           |                              |                                       | 33                                          |                                   | 33                          |         | 33      |         | 33                  |
| Loans issued - variable rate                                | (11) |                                                           |                              |                                       | 4                                           |                                   | 4                           |         |         |         |                     |
| Non-current receivables                                     | (11) |                                                           |                              |                                       | 6                                           |                                   | 6                           |         |         |         |                     |
| Trade and other receivables                                 | (13) |                                                           |                              |                                       | 1,636                                       |                                   | 1,636                       |         |         |         |                     |
| Cash and cash equivalents                                   | (14) |                                                           |                              |                                       | 356                                         |                                   | 356                         |         |         |         |                     |
|                                                             |      |                                                           |                              |                                       | <b>2,035</b>                                |                                   | <b>2,035</b>                |         |         |         |                     |
| <b>Financial assets measured<br/>at fair value</b>          |      |                                                           |                              |                                       |                                             |                                   |                             |         |         |         |                     |
| Hedging derivatives                                         | (21) | 21                                                        | 3                            |                                       |                                             |                                   | 24                          |         | 24      |         | 24                  |
| Securities                                                  | (11) |                                                           |                              | 1                                     |                                             |                                   | 1                           |         |         | 1       | 1                   |
|                                                             |      | <b>21</b>                                                 | <b>3</b>                     | <b>1</b>                              |                                             |                                   | <b>25</b>                   |         |         |         |                     |
| <b>Financial liabilities not<br/>measured at fair value</b> |      |                                                           |                              |                                       |                                             |                                   |                             |         |         |         |                     |
| Interest-bearing borrowings<br>- fixed rate                 | (20) |                                                           |                              |                                       |                                             | 949                               | 949                         |         | 970     |         | 970                 |
| Interest-bearing borrowings<br>- variable rate              | (20) |                                                           |                              |                                       |                                             | 702                               | 702                         |         | 704     |         | 704                 |
| Other non-current financial<br>liabilities                  | (21) |                                                           |                              |                                       |                                             | 3                                 | 3                           |         |         |         |                     |
| Trade and other payables                                    | (22) |                                                           |                              |                                       |                                             | 2,741                             | 2,741                       |         |         |         |                     |
|                                                             |      |                                                           |                              |                                       |                                             | <b>4,395</b>                      | <b>4,395</b>                |         |         |         |                     |
| <b>Financial liabilities<br/>measured at fair value</b>     |      |                                                           |                              |                                       |                                             |                                   |                             |         |         |         |                     |
| Hedging derivatives                                         | (21) | 10                                                        | 4                            |                                       |                                             |                                   | 14                          |         | 14      |         | 14                  |
| Put option liabilities                                      | (21) |                                                           | 50                           |                                       |                                             |                                   | 50                          |         |         | 50      | 50                  |
| Contingent considerations                                   | (21) |                                                           | 6                            |                                       |                                             |                                   | 6                           |         |         | 6       | 6                   |
|                                                             |      | <b>10</b>                                                 | <b>60</b>                    |                                       |                                             |                                   | <b>70</b>                   |         |         |         |                     |

2017

|                                                         | Note | Designated at fair value | Fair value hedging instruments | Available-for-sale | Loans and receivables | Other financial liabilities | Total carrying amount | Level 1 | Level 2 | Level 3 | Total fair value |
|---------------------------------------------------------|------|--------------------------|--------------------------------|--------------------|-----------------------|-----------------------------|-----------------------|---------|---------|---------|------------------|
| <b>Financial assets not measured at fair value</b>      |      |                          |                                |                    |                       |                             |                       |         |         |         |                  |
| Loans issued - fixed rate                               | (11) |                          |                                |                    | 43                    |                             | 43                    |         | 43      |         | 43               |
| Loans issued - variable rate                            | (11) |                          |                                |                    | 8                     |                             | 8                     |         |         |         |                  |
| Non-current receivables                                 | (11) |                          |                                |                    | 2                     |                             | 2                     |         |         |         |                  |
| Trade and other receivables                             | (13) |                          |                                |                    | 1,655                 |                             | 1,655                 |         |         |         |                  |
| Cash and cash equivalents                               | (14) |                          |                                |                    | 356                   |                             | 356                   |         |         |         |                  |
|                                                         |      |                          |                                |                    | 2,064                 |                             | 2,064                 |         |         |         |                  |
| <b>Financial assets measured at fair value</b>          |      |                          |                                |                    |                       |                             |                       |         |         |         |                  |
| Hedging derivatives                                     | (21) |                          | 23                             |                    |                       |                             | 23                    |         | 23      |         | 23               |
| Securities                                              | (11) |                          |                                | 1                  |                       |                             | 1                     |         |         | 1       | 1                |
|                                                         |      |                          | 23                             | 1                  |                       |                             | 24                    |         |         |         |                  |
| <b>Financial liabilities not measured at fair value</b> |      |                          |                                |                    |                       |                             |                       |         |         |         |                  |
| Interest-bearing borrowings - fixed rate                | (20) |                          |                                |                    |                       | 892                         | 892                   |         | 940     |         | 940              |
| Interest-bearing borrowings - variable rate             | (20) |                          |                                |                    |                       | 768                         | 768                   |         | 771     |         | 771              |
| Trade and other payables                                | (22) |                          |                                |                    |                       | 2,891                       | 2,891                 |         |         |         |                  |
|                                                         |      |                          |                                |                    |                       | 4,551                       | 4,551                 |         |         |         |                  |
| <b>Financial liabilities measured at fair value</b>     |      |                          |                                |                    |                       |                             |                       |         |         |         |                  |
| Hedging derivatives                                     | (21) |                          | 37                             |                    |                       |                             | 37                    |         | 37      |         | 37               |
| Put option liabilities                                  | (21) | 76                       |                                |                    |                       |                             | 76                    |         |         | 76      | 76               |
|                                                         |      | 76                       | 37                             |                    |                       |                             | 113                   |         |         |         |                  |

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 2.3% (2017: 2.7%) is used. The fair value of the loans provided with a fixed interest rate is determined using an average interest rate of 4.8% (2017: 4.7%).

#### Securities

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

#### Hedging derivatives

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

#### Put option liabilities

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

At year-end 2018, as a consequence of the downward adjusted forecasts of the results of Engro Foods Ltd. and negative currency developments, a remeasurement of the put option liability was performed resulting in a release of EUR 29 million (2017: EUR 1 million). This release is recognised under other finance income.

If the forecasted profit before interest, taxes, depreciation and amortisation of Engro Foods would have been 10% higher, then FrieslandCampina's profit over 2018 would have been EUR 1 million lower due to the remeasurement of the put option liability.

#### Movements and transfers

During 2018, movements of the financial instruments classified as Level 3 were as follows:

|                                       | 2018                      |                        |            |
|---------------------------------------|---------------------------|------------------------|------------|
|                                       | Contingent considerations | Put option liabilities | Securities |
| Carrying amount at 1 January          |                           | 76                     | 1          |
| Acquired through acquisition          | 6                         |                        |            |
| Finance costs                         |                           | 3                      |            |
| Fair value adjustment                 |                           | -29                    |            |
| <b>Carrying amount at 31 December</b> | <b>6</b>                  | <b>50</b>              | <b>1</b>   |

|                                       | 2017                      |                        |            |
|---------------------------------------|---------------------------|------------------------|------------|
|                                       | Contingent considerations | Put option liabilities | Securities |
| Carrying amount at 1 January          | 16                        | 81                     | 1          |
| Transfer from Level 1                 |                           |                        | 7          |
| Redemptions                           | -17                       | -8                     |            |
| Finance costs                         | 1                         | 4                      |            |
| Fair value adjustment                 |                           | -1                     | -7         |
| <b>Carrying amount at 31 December</b> |                           | <b>76</b>              | <b>1</b>   |

There were no transfers from or to levels 1, 2 or 3 during 2018.

#### 27 Specification of external auditor's fees

|                                   | 2018                                     |                   |                   |
|-----------------------------------|------------------------------------------|-------------------|-------------------|
|                                   | Pricewaterhouse Coopers Accountants N.V. | Other PwC network | Total PwC network |
| Audit of the financial statements | 1.4                                      | 1.5               | 2.9               |
| Other audit engagements           | 0.2                                      | 0.1               | 0.3               |
|                                   | <b>1.6</b>                               | <b>1.6</b>        | <b>3.2</b>        |

|                                   | 2017                                     |                   |                   |
|-----------------------------------|------------------------------------------|-------------------|-------------------|
|                                   | Pricewaterhouse Coopers Accountants N.V. | Other PwC network | Total PwC network |
| Audit of the financial statements | 1.4                                      | 1.5               | 2.9               |
| Other audit engagements           | 0.3                                      | 0.1               | 0.4               |
|                                   | <b>1.7</b>                               | <b>1.6</b>        | <b>3.3</b>        |

#### 28 Subsequent events

There were no subsequent events with a significant impact on the 2018 financial statements.

**29 Significant accounting policies**

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

**Changes in accounting policies and disclosures****New and revised standards, amendments and interpretations as adopted by FrieslandCampina**

Various amendments were applicable for the first time in 2018 but have no impact on FrieslandCampina's consolidated financial statements. The following new standards were applied for the first time in 2018:

***IFRS 9 'Financial instruments'***

IFRS 9 comprises revised stipulations regarding the classification and measurement of financial instruments, including a new model for expected credit losses for the purpose of calculating the impairment of financial assets, and the new general requirements for hedge accounting. FrieslandCampina assessed the impact of applying IFRS 9 to FrieslandCampina's consolidated financial statements. IFRS 9 does not have a significant impact on the classification and measurement of financial assets. Under IFRS 9, gains and losses realised on the sale of securities will no longer be recognized in the consolidated income statement but will instead be reclassified from the fair value reserve to the retained earnings within equity. IFRS 9 does not have impact on financial liabilities for FrieslandCampina.

FrieslandCampina has concluded that its current hedge relationships again qualify for hedge accounting under the new rules.

The revised impairment model requires the recognition of impairments to be based on expected credit losses rather than on the basis of triggering events for credit losses. A minor increase in the provision for doubtful trade receivables resulted from applying the expected loss model.

FrieslandCampina applied IFRS 9 effective from 1 January 2018, but did not adjust the 2017 comparative figures.

***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.

FrieslandCampina assessed the potential impact of applying IFRS 15 to FrieslandCampina's consolidated financial statements. In view of the nature of the contracts, that are primarily related to the sale of goods with no separate performance obligations requiring revenue to be reported over time pursuant to IFRS 15, IFRS 15 does not have a significant impact on result or equity.

FrieslandCampina applied IFRS 15 effective from 1 January 2018, but did not adjust the 2017 comparative figures.

***New and revised standards, amendments and interpretations issued but not effective for the financial year starting on 1 January 2018 without early adoption***

New standards, amendments to standards and interpretations that are effective for annual periods starting after 1 January 2018, have not been applied to these consolidated financial statements. These are not expected to have any significant impact on the consolidated financial statements of FrieslandCampina, with the exception of the following new standard:

***IFRS 16 'Leases'***

IFRS 16 comprises a uniform accounting method for all lease agreements in the statement of financial position, whereby lessees have to recognise right-of-use assets and lease liabilities in the balance sheet, except for short term leases (less than 12 months) and leases of low value. This will mean that the assets and liabilities related to operating leases will be recognised in the statement of financial position. FrieslandCampina assessed the impact of the application of IFRS 16 on the consolidated financial statements of FrieslandCampina. IFRS 16 results in an increase in FrieslandCampina's assets and lease liabilities amounting to an estimated EUR 215 million. Furthermore, interest expenses related to lease agreements are no longer reported as part of operating profit, but as finance costs. The impact on the result for the year and equity is not expected to be significant.

This standard was endorsed by the EU and will become effective on 1 January 2019. FrieslandCampina will apply IFRS 16 effective from 1 January 2019, but will not adjust the 2018 comparative figures.

**Basis of Consolidation****Business combinations**

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

FrieslandCampina measures goodwill at the acquisition date as:

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

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

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

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

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

**Acquisition of non-controlling interests**

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

**Subsidiaries**

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

**Loss of control**

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

**Associates and joint ventures**

Associates are those entities in which FrieslandCampina has significant influence, but no control, over the financial and operating policies. Joint ventures are the entities in which FrieslandCampina has joint control and to which FrieslandCampina is entitled to a portion of the net assets rather than the assets and liabilities of the entity. A joint venture is a contractual arrangement whereby FrieslandCampina and other parties undertake an economic activity through a jointly controlled entity.

Joint control exists when strategic, financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

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

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

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 107.

#### **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;
- a financial liability designated as a hedge of the net investment in a foreign operation;
- qualifying cash flow hedges to the extent the criteria for hedge accounting are met.

These differences are recognised in equity via other comprehensive income.

##### **Foreign operations**

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

When 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 arising through the translation of a receivable or liability that is classified as a net investment in a foreign activity are recognised in other comprehensive income and accounted for in the currency translation differences reserve in equity. When this receivable or liability is repaid, the portion of the currency translation differences reserve related to this net investment is transferred to the income statement.

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

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

|                            | <b>2017</b> |         |
|----------------------------|-------------|---------|
|                            | At year-end | Average |
| US dollar                  | 1.20        | 1.13    |
| Chinese yuan               | 7.80        | 7.63    |
| Philippine peso            | 59.66       | 56.97   |
| Hong Kong dollar           | 9.38        | 8.81    |
| Indonesian rupiah (10,000) | 1.62        | 1.51    |
| Malaysian ringgit          | 4.84        | 4.85    |
| Nigerian naira (100)       | 4.32        | 3.78    |
| Pakistan rupee             | 132.46      | 119.08  |
| Russian rouble             | 69.28       | 65.92   |
| Singapore dollar           | 1.61        | 1.56    |
| Thai baht                  | 39.08       | 38.29   |
| Vietnamese dong (10,000)   | 2.73        | 2.57    |

## Financial instruments

### Non-derivative financial assets

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

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

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

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

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

Up to and until 31 December 2017, FrieslandCampina classified financial assets, other than derivatives, into the following categories: financial assets available for sale, financial assets measured at fair value through profit or loss and loans and receivables.

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

### *Financial assets measured at fair value through other comprehensive income – as of 1 January 2018*

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

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

### *Financial assets available for sale – up to and including 31 December 2017*

On initial recognition these assets are stated at fair value plus any directly attributable transaction costs. After initial recognition, the financial assets held for sale are measured at fair value, whereby any changes in fair value, other than impairment losses, are recognised in other comprehensive income and accumulated in the fair value reserve. Any dividends are recognised in the income statement as finance income. If these assets are no longer recognised,

the profits and losses accumulated in equity are transferred to the income statement.

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

***Financial assets measured at fair value through profit or loss***

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

***Financial assets at amortised cost – as of 1 January 2018***

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

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

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

***Loans and receivables – up to and including 31 December 2017***

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.

***Cash and cash equivalents***

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

***Non-derivative financial liabilities***

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

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

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

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

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

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

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

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

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

**Derivatives for which hedge accounting is applied**

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

**Assessment of the hedging relationship's effectiveness - as of 1 January 2018**

On initial designation of the derivative as a hedging instrument, FrieslandCampina formally documents the relationship between the hedging instrument(s) and the hedged item(s), including its risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. At the start of the hedging relationship and on each subsequent reporting date, FrieslandCampina assesses whether the hedging instruments during the period for which the hedge was designated are expected to meet the hedge accounting criteria.

The hedging relationship can result in ineffectiveness when:

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

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

**Assessment of the hedging relationship's effectiveness - up to and including 31 December 2017**

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 significance that they could ultimately affect the reported profit or loss.

**Cash flow hedges**

When a derivative is designated as the hedging instrument for the variability in cash flows resulting from a particular risk associated with a recognised asset, liability, or highly probable anticipated transaction that could affect the income statement, then the effective portion of changes in the fair value of the derivative is included in the consolidated statement of other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

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

**Derivatives without application of hedge accounting**

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

**Equity****Share capital**

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

**Other financial instruments**

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

**Dividends**

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

**Property, plant and equipment****Recognition and measurement**

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

The cost price of self-constructed assets comprises:

- costs of materials and direct labour costs;
- any other costs directly attributable to making the asset ready for use;
- 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 property, plant and equipment have different useful lives, the parts are accounted for as separate components of property, plant and equipment. Any gain or loss on the disposal of property, plant and equipment is determined on the basis of a comparison of the proceeds from the sale and the carrying amount of the property, plant or equipment and is recognised in the income statement.

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

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

**Costs after initial recognition**

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

**Depreciation**

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

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 investees that are not being consolidated, the carrying amount of goodwill is included in the carrying amount of the joint venture or associate and any impairment loss is allocated to the carrying amount of the joint venture or associate as a whole.

**Research and development**

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognised in the income statement as incurred. Development activities include the drawing-up of a plan or design for the production of new or significantly improved products or processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and FrieslandCampina intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the

cost of materials, direct labour, overhead costs directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the income statement as incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

#### Other intangible assets

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

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

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

#### Costs after initial recognition

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

#### Amortisation

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

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

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

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

#### Biological assets

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

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

#### Inventories

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

#### Acquisition of inventories resulting from a business combination

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

#### Impairments

##### Non-derivative financial assets – as of 1 January 2018

##### *Impairment of financial assets*

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

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

##### *Loans granted at amortised cost*

In case of a low credit risk, a provision is made on the basis of the expected credit losses over the coming 12 months. In case of a significant increase in credit risk, a provision is made on the basis of the life time expected credit losses. FrieslandCampina determines the impairment of loans granted at amortised cost on an annual basis. A low credit risk is assumed in case there were no defaults of payment

in the past and the counterparty has sufficient funds at its disposal to meet the contractual payment obligations.

#### *Trade receivables and other receivables*

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

#### **Non-derivative financial assets – up to and including 31 December 2017**

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 considered subject to impairment if there is a reasonable expectation of receipt of the estimated future cash flow that after the initial recognition of the asset an event occurred that has had a negative effect on the estimated future cash flows of that asset that can be measured reliably. An objective indication of impairment can comprise significant payment difficulties of a debtor or group of debtors, indications a debtor might 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 balance sheet date causes the amount of impairment loss to decrease, this decrease is reversed through the income statement.

#### **Financial assets classified as available-for-sale – up to and including 31 December 2017**

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 trigger for impairment. If such a trigger exists, the asset's recoverable amount is estimated. Goodwill and intangible assets with an indefinite life are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

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

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

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

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

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

#### **Assets held for sale**

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

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

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

#### **Employee benefits**

##### **Defined contribution plans**

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

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

##### **Defined benefit plans**

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

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

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

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

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

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

#### Other long-term employee benefits

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

#### Short-term employee benefits

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

#### Provisions

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

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

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

#### Net revenue

Revenue from the sale of goods is recognised based on the transaction price of the received or receivable payment. The transaction price is determined taking into account returns, trade discounts and volume rebates. Revenue is recognised in the income statement when persuasive evidence exists of settlement of the contractual performance obligation by transfer of the goods to the customer. Persuasive evidence usually exists in the form of an executed sales agreement. Settlement of the performance obligation has persuasively occurred when control (up to and including 31 December 2017: risks and rewards) over the goods has been transferred to the customer, associated costs and possible return of goods can then be estimated reliably and there is no continuing control over or involvement with the goods.

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

#### Cost of goods sold

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

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

#### Advertising and promotion costs

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

**Selling, general and administrative costs**

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

**Other operating costs and income**

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

**Government grants**

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

**Lease agreements**

At the inception of an agreement, 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 agreement depends on the use of a specific asset or assets; and the agreement contains a right to use the asset(s). At inception, or on reassessment of the agreement, 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 as 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, with due consideration to impairments.

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

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

**Taxes**

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that on the transaction date does not affect accounting or taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not be settled in the foreseeable future;
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

### **Cash flows**

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

# Principal subsidiaries, joint ventures and associates<sup>1</sup>

## 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 (81.69%)  
 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 C.V.B.A., Aalter (99.84%)  
 Yoko Cheese N.V., Genk (99.89%)

### Germany

CMG Grundstücksverwaltungs- und Beteiligungs - GmbH, Heilbronn (89.56%)<sup>2</sup>  
 DMV-Fonterra Excipients GmbH & Co. KG, Goch (50%)<sup>3</sup>  
 FKS Frischkonzept Service GmbH, Viersen  
 FrieslandCampina Cheese GmbH, Essen  
 FrieslandCampina Germany GmbH, Heilbronn (94.90%)  
 FrieslandCampina Kievit GmbH, Lippstadt  
 Milchverwaltung FrieslandCampina Germany GmbH, Cologne

### 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

### Austria

FrieslandCampina Austria GmbH, Stainach

### Romania

FrieslandCampina Romania S.A., Satu Mare (97,58%)

### Russia

Campina LLC, Moscow  
 FrieslandCampina RU LLC, Moscow

### Spain

FrieslandCampina Canarias S.A., Las Palmas  
 FrieslandCampina Iberia S.L., Barcelona  
 Millán Vicente S.L., Zaragoza

### United Kingdom

FrieslandCampina UK Ltd., Horsham

### China

Friesland Huishan Dairy Co. Ltd., Shenyang  
 FrieslandCampina Branding Management (Shanghai) Co. Ltd., Shanghai  
 FrieslandCampina Ingredients (Beijing) Co. Ltd., Beijing  
 FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai  
 FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai

**Hong Kong**

FrieslandCampina (Hong Kong) Ltd., Hong Kong

**Philippines**

Alaska Milk Corporation, Makati City (99.86%)

**Indonesia**

PT Frisian Flag Indonesia, Jakarta (95%)

PT Kievit Indonesia, Jakarta

**Malaysia**

Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)

**Pakistan**

Engro Foods Ltd., Karachi (51%)

**Singapore**

FrieslandCampina (Singapore) Pte. Ltd., Singapore

FrieslandCampina AMEA Pte. Ltd., Singapore

**Thailand**

FrieslandCampina Fresh (Thailand) Co. Ltd., Bangkok

FrieslandCampina (Thailand) PCL, Bangkok (99.71%)

**Vietnam**

FrieslandCampina Ha Nam Co. Ltd., Phu Ly

FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)

**Saudi Arabia**

FrieslandCampina Saudi Arabia Ltd., Jeddah

**United Arab Emirates**

FrieslandCampina Middle East DMCC, Dubai

**Egypt**

FrieslandCampina Egypt Consulting and Trading S.A.E., Cairo

**Ghana**

FrieslandCampina West Africa Ltd., Accra

**Ivory Coast**

FrieslandCampina Ivory Coast S.A., Abidjan

**Nigeria**

FrieslandCampina WAMCO Nigeria PLC, Ikeja (67.81%)

**USA**

FrieslandCampina Ingredients North America Inc., Paramus, State: New Jersey

Jana Foods LLC., Iselin, State: New Jersey

Best Cheese Corporation, Purchase, State: New York

**Joint ventures and associates <sup>4</sup>**

Betagen Holding Ltd., Hong Kong, China (50%)

Coöperatieve Zuivelinvesteerders U.A., Oudenhooft, the Netherlands (49.90%)

CSK Food Enrichment C.V., Leeuwarden, the Netherlands (82.33%)

Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)

<sup>1</sup> 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.

<sup>2</sup> Based on an agreement, FrieslandCampina is entitled to 100% of this company's results.

<sup>3</sup> In diesen Gesellschaften hat FrieslandCampina einen beherrschenden Einfluss. Durch die Einbeziehung in den Konzernabschluss der Royal FrieslandCampina N.V. hat die DMV Fonterra Excipients GmbH & Co. KG als vollkonsolidiertes verbundenes Unternehmen von den Erleichterungen des § 264b HGB Gebrauch gemacht.

<sup>4</sup> 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 | 2018         | 2017  |
|------------------------------------------------------------------------------|------|--------------|-------|
| <b>Assets</b>                                                                |      |              |       |
| Investments in subsidiaries                                                  | (2)  | 3,036        | 2,400 |
| Loans to subsidiaries                                                        | (3)  | 656          | 1,039 |
| Deferred tax assets                                                          |      | 6            | 8     |
| Other financial assets                                                       | (8)  | 21           | 20    |
| <b>Non-current assets</b>                                                    |      | <b>3,719</b> | 3,467 |
| Other receivables                                                            | (4)  | 2,232        | 2,745 |
| Other financial assets                                                       | (8)  | 9            | 13    |
| <b>Current assets</b>                                                        |      | <b>2,241</b> | 2,758 |
| <b>Total assets</b>                                                          |      | <b>5,960</b> | 6,225 |
| <b>Equity</b>                                                                |      |              |       |
| Issued capital                                                               |      | 370          | 370   |
| Share premium                                                                |      | 114          | 114   |
| Statutory cash flow hedge reserve                                            |      | -25          | -25   |
| Statutory currency translation reserve                                       |      | -257         | -211  |
| Statutory reserve for investments in subsidiaries                            |      | 285          | 300   |
| Profit for the year attributable to the shareholder                          |      | 74           | 143   |
| Retained earnings                                                            |      | 743          | 596   |
| <b>Equity attributable to the shareholder</b>                                | (5)  | <b>1,304</b> | 1,287 |
| Member bonds                                                                 |      | 1,610        | 1,596 |
| Cooperative loan                                                             |      | 295          | 295   |
| <b>Equity attributable to the shareholder and other providers of capital</b> | (5)  | <b>3,209</b> | 3,178 |
| <b>Liabilities</b>                                                           |      |              |       |
| Interest-bearing borrowings                                                  | (6)  | 975          | 933   |
| Other financial liabilities                                                  | (8)  | 10           | 32    |
| <b>Non-current liabilities</b>                                               |      | <b>985</b>   | 965   |
| Interest-bearing borrowings                                                  | (6)  | 579          | 557   |
| Trade and other payables                                                     |      | 11           | 11    |
| Other liabilities                                                            | (7)  | 1,171        | 1,509 |
| Other financial liabilities                                                  | (8)  | 5            | 5     |
| <b>Current liabilities</b>                                                   |      | <b>1,766</b> | 2,082 |
| <b>Total liabilities</b>                                                     |      | <b>2,751</b> | 3,047 |
| <b>Total equity and liabilities</b>                                          |      | <b>5,960</b> | 6,225 |

## Company income statement

In millions of euros

|                                             | 2018       | 2017 |
|---------------------------------------------|------------|------|
| Share of profit of subsidiaries, net of tax | 108        | 181  |
| Other results, net of tax                   | 22         | 15   |
| <b>Profit for the year</b>                  | <b>130</b> | 196  |

# Notes to the company financial statements

In millions of euros, unless stated otherwise

## 1 General

### Accounting policies and notes

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

See the Notes to the consolidated financial statements for items not included in the Notes to the company financial statements. Investments in subsidiaries are measured using the net asset value. In recognizing the impact of expected credit losses on loans and receivables from subsidiaries, RJ statement 2018-1 has been applied. As a result this impact has been eliminated on the carrying amount of the relevant loans and receivables.

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

|                                         | 2018         | 2017  |
|-----------------------------------------|--------------|-------|
| At 1 January                            | 2,400        | 2,404 |
| Profit for the year                     | 108          | 181   |
| Other comprehensive income for the year | -50          | -185  |
| Other equity movements for the year     | 578          |       |
| <b>At 31 December</b>                   | <b>3,036</b> | 2,400 |

Other equity movements in 2018 relate to capital contributions of EUR 850 million and dividends received of EUR 253 million due to the restructuring of financing of subsidiaries.

## 3 Loans to subsidiaries

|                                                        | 2018       | 2017  |
|--------------------------------------------------------|------------|-------|
| At 1 January                                           | 1,039      | 886   |
| Reclassification of current loans to other receivables | -811       | -34   |
| Loans issued                                           | 491        | 189   |
| Repaid loans                                           | -63        | -2    |
| <b>At 31 December</b>                                  | <b>656</b> | 1,039 |

|                          | 2018        |            |                  | 2017        |            |                  |
|--------------------------|-------------|------------|------------------|-------------|------------|------------------|
| <b>Maturity schedule</b> | 2020 - 2023 | After 2023 | Total repayments | 2019 - 2022 | After 2022 | Total repayments |
| Loans to subsidiaries    | 651         | 5          | 656              | 1,034       | 5          | 1,039            |

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 2018 was 1.3% (2017: 1.2%).

## 4 Other receivables

EUR 991 million (2017: EUR 2,212 million) of the other receivables relates to a temporary current account with subsidiaries resulting from the sweep of bank positions within FrieslandCampina and EUR 1,225 million (2017: EUR 525 million) relates to the current receivables from subsidiaries and the current portion of loans to subsidiaries. In addition, a receivable from Zuivelcoöperatie FrieslandCampina U.A. for an amount of EUR 11 million has been recognized in 2018.

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

The number of issued shares at both the beginning and end of the financial year was 3,702,777 shares. EUR 370 million has been paid-up on these shares. The authorised capital amounts to EUR 1 billion, divided into 10,000,000 shares with a nominal value of EUR 100. The shares are 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 285 million (2017: EUR 300 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 Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

|                                                          |                  |                         | 2018            | 2017            |
|----------------------------------------------------------|------------------|-------------------------|-----------------|-----------------|
|                                                          | Year of maturity | % Nominal interest rate | Carrying amount | Carrying amount |
| Syndicate (variable interest)                            | 2018-2019        | 0.3                     | 20              | 50              |
| European Investment Bank (fixed interest)                | 2019-2026        | 0.8                     | 150             | 100             |
| International Finance Corporation (variable interest)    | 2019-2026        | 4.1                     | 87              | 83              |
| <b>Borrowings from credit institutions</b>               |                  |                         | <b>257</b>      | 233             |
| Private Placement (fixed interest)                       | 2020             | 5.7                     | 116             | 110             |
| Private Placement (fixed interest)                       | 2022             | 4.0                     | 70              | 67              |
| Private Placement (fixed interest)                       | 2024             | 4.2                     | 127             | 122             |
| Private Placement (fixed interest)                       | 2018-2027        | 4.0                     | 160             | 170             |
| <b>Borrowings from institutional investors</b>           |                  |                         | <b>473</b>      | 469             |
| Green bonds (fixed interest)                             | 2021-2026        | 1.4                     | 300             | 300             |
| <b>Borrowings from holders of green bonds</b>            |                  |                         | <b>300</b>      | 300             |
| Euro commercial paper (variable interest)                | 2018-2019        | -0.3                    | 290             | 221             |
| Belgium commercial paper (variable interest)             | 2018             | 0.0                     |                 | 25              |
| Other uncommitted facilities (variable interest)         | 2018-2019        | 0.1                     | 100             | 70              |
| <b>Uncommitted facilities</b>                            |                  |                         | <b>390</b>      | 316             |
| Borrowings from member dairy farmers (variable interest) | 2018-2019        | 0.4                     | 22              | 23              |
| Bank overdrafts (variable interest)                      | 2018-2019        | 2.1                     | 116             | 154             |
| Capitalised issue costs                                  | 2018-2027        |                         | -4              | -5              |
| <b>Other</b>                                             |                  |                         | <b>134</b>      | 172             |
| <b>Interest-bearing borrowings</b>                       |                  |                         | <b>1,554</b>    | 1,490           |
| Recognised under non-current interest-bearing borrowings |                  |                         | 975             | 933             |
| Recognised under current interest-bearing borrowings     |                  |                         | 579             | 557             |

See Note 20 in the consolidated financial statements for the disclosure of borrowings from credit institutions and borrowings from institutional investors.

The borrowings from member dairy farmers concern three-year deposit loans held by member dairy farmers. These loans are immediately repayable on demand by the member dairy farmers against payment of a penalty interest of 0.25%.

**7 Current liabilities**

EUR 1,171 million (2017: EUR 1,449 million) of the current liabilities concerns a temporary current account with subsidiaries as a result of the sweep of bank positions within FrieslandCampina. In 2017 a liability to Zuivelcoöperatie FrieslandCampina U.A. of EUR 60 million is recognised.

**8 Other financial assets and liabilities**

|                                    | 2018      | 2017 |
|------------------------------------|-----------|------|
| <b>Other financial assets</b>      |           |      |
| Cross currency swaps               | 21        | 14   |
| Forward exchange contracts         | 4         | 4    |
| Commodity swaps                    |           | 4    |
| Loans issued                       | 3         | 7    |
| Interest receivable                | 2         | 4    |
|                                    | <b>30</b> | 33   |
| <b>Other financial liabilities</b> |           |      |
| Cross currency swaps               | 10        | 31   |
| Interest rate swaps                | 2         | 2    |
| Forward exchange contracts         | 3         | 4    |
|                                    | <b>15</b> | 37   |

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 216 million (assets) and EUR 229 million (liabilities) (2017: EUR 264 million and EUR 458 million respectively).

**9 Financial instruments**

FrieslandCampina is sensitive to various financial risks, such as credit risks, interest rate risks, liquidity risks and currency risks. The Notes to the consolidated financial statements contain information regarding FrieslandCampina's exposure to each of these risks and FrieslandCampina's objectives, principles and procedures for managing and measuring these risks, see Note 26 of the consolidated financial statements.

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

**Fair value**

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

|                                                         | 2018            |              | 2017            |            |
|---------------------------------------------------------|-----------------|--------------|-----------------|------------|
|                                                         | Carrying amount | Fair value   | Carrying amount | Fair value |
| <b>Financial assets not measured at fair value</b>      |                 |              |                 |            |
| Loans to subsidiaries                                   | 656             | 656          | 1,039           | 1,039      |
| Other receivables                                       | 2,232           | 2,232        | 2,745           | 2,745      |
| Other financial assets (excluding hedging derivatives)  | 5               | 5            | 11              | 11         |
|                                                         | <b>2,893</b>    | <b>2,893</b> | 3,795           | 3,795      |
| <b>Financial assets measured at fair value</b>          |                 |              |                 |            |
| Hedging derivatives                                     | 25              | 25           | 22              | 22         |
|                                                         | <b>25</b>       | <b>25</b>    | 22              | 22         |
| <b>Financial liabilities not measured at fair value</b> |                 |              |                 |            |
| Interest-bearing borrowings - fixed rate                | 921             | 942          | 867             | 871        |
| Interest-bearing borrowings - variable rate             | 633             | 635          | 623             | 626        |
| Current payables to subsidiaries                        | 1,171           | 1,171        | 1,509           | 1,509      |
| Trade and other payables                                | 11              | 11           | 11              | 11         |
|                                                         | <b>2,736</b>    | <b>2,759</b> | 3,010           | 3,017      |
| <b>Financial liabilities measured at fair value</b>     |                 |              |                 |            |
| Hedging derivatives                                     | 15              | 15           | 37              | 37         |
|                                                         | <b>15</b>       | <b>15</b>    | 37              | 37         |

#### 10 Commitments and contingencies

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

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 unity as a whole.

#### 11 Remuneration of the Supervisory Board and the Statutory Directors

The remuneration of members of the Supervisory Board and the Statutory Directors is equal to the remuneration of members of the Supervisory Board and the Executive Board as disclosed in Note 25 of the consolidated financial statements. During the year under review, no employees were employed by the Company.

#### 12 Subsequent events

For information regarding subsequent events, see Note 28 of the consolidated financial statements.

**13 Proposed appropriation of profit attributable to the shareholder**

The Supervisory Board has approved the Executive Board's proposal that of the EUR 130 million profit, EUR 9 million is reserved as interest compensation for the Cooperative loan, EUR 47 million is reserved as interest compensation on the member bonds and EUR 74 million is added to the retained earnings.

Amersfoort, the Netherlands, 15 February 2019

**Executive Board**

Royal FrieslandCampina N.V.

H.M.A. Schumacher, CEO

J.M. de Bakker, CFO

**Supervisory Board**

Royal FrieslandCampina N.V.

F.A.M. Keurentjes, Chairman

W.M. Wunnekink, Vice-Chairman

J.W. Addink-Berendsen

W. Dekker

B.E.G. ten Doeschot

L.W. Gunning

H.T.J. Hettinga

D.R. Hooft Graafland

C.C.H. Hoogeveen

A.A.M. Huijben-Pijnenburg

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.



## Independent auditor's report

**To: the general meeting of shareholders and supervisory board of Royal FrieslandCampina N.V.**

### Report on the financial statements 2018

#### **Our opinion**

In our opinion:

- Royal FrieslandCampina N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its result and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- Royal FrieslandCampina N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 2018 of Royal FrieslandCampina N.V., Amersfoort ('the Company'). The financial statements include the consolidated financial statements of Royal FrieslandCampina N.V. together with its subsidiaries ('the Group') and the company financial statements.

The consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the following statements for 2018: the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising the significant accounting policies and other explanatory information.

The company financial statements comprise:

- the company balance sheet as at 31 December 2018;
- 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 applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

#### **The basis for our opinion**

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Independence**

We are independent of Royal FrieslandCampina N.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO - Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA - Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).



## Our audit approach

### Overview and context

Royal FrieslandCampina N.V. is a dairy company and is through Zuivelcoöperatie FrieslandCampina U.A. owned by the member 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 paragraph 'Materiality' in this auditor's report. The organisational structure is further explained in the Governance chapter of the annual report. This structure also has its influence on the management and reporting of the activities of the group, and it has its influence on the annual report and our audit approach, for example regarding to purchases of milk and cooperative activities (further explained in the About FrieslandCampina chapter of the annual report). The Group comprises several components and therefore we considered our group audit scope and approach as set out in the section 'The scope of our group audit'.

The financial year 2018 is characterised by the execution of the restructuring and transformation that took place in multiple countries within the group, as described in the 'Report of the Executive Board' chapter of the annual report. This mainly affected our audit approach with regards to the reallocation of goodwill as described in section 'Key audit matters'.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the executive board made important judgements, for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In paragraph 'Judgements, estimates and assumptions' within the paragraph 'Notes to the consolidated financial statements' of the financial statements the executive board describes the areas of judgement in applying accounting policies and the key sources of estimation uncertainty. Within our audit the estimations related to the valuation of goodwill, other intangible assets and non-current assets, and the valuation of tax positions were the most significant. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in the valuation of these positions, we considered these matters as key audit matters as set out in the section 'Key audit matters' of this report.

As in all of our audits, we also addressed the risk of management override of controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud based on an analysis of the potential interests of the executive board.

We ensured that the audit teams at both group and component level included the appropriate skills and competences, which are needed for the audit of a dairy company. We therefore included specialists in the areas of IT systems, valuation of assets, (international) taxes, financial instruments and long-term employee benefits in our team.

The outline of our audit approach was as follows:





### Materiality

The scope of our audit is influenced by the application of materiality, which is further explained in the section 'Our responsibilities for the audit of the financial statements'.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

|                                          |                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall group materiality</b>         | € 45 million (2017: € 45 million).                                                                                                                                                                                                                                                                                                              |
| <b>Basis for determining materiality</b> | We used our professional judgement to determine overall materiality. As a basis for our judgement we used 1,5 % of the compensation to the members for milk supply. The materiality benchmark is consistent with prior year, based on our professional judgement and the common need of the users the materiality is maximized at € 45 million. |
| <b>Rationale for benchmark applied</b>   | The benchmark is based on our analysis of the common information needs of users of the financial statements and the member dairy farmers. On this basis, we believe that the compensation to the members for milk supply is an important metric for the financial performance of the company.                                                   |
| <b>Component materiality</b>             | To each component in our audit scope, we, based on our judgement, allocate materiality that is less than our overall group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.                                                                           |

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the supervisory board and audit committee that we would report to them misstatements identified during our audit above € 1 million (2017: € 1 million) that affect the result as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### The scope of our group audit

Royal FrieslandCampina N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Royal FrieslandCampina N.V. With effect from 1 January 2018 the activities of the group have been divided in a new organisational structure. This consists of four new business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. The execution and coordination of the group audit has been performed along the lines of these four business groups.

We tailored the scope of our audit to ensure that we performed sufficient audit procedures to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at component level by the Group engagement team and by each component auditor.



In determining the scope of our group audit we have taken into account the following elements of the internal control environment of the group:

- Internal Control Framework: during the coordination of our group audit we instructed the component teams to, where relevant for the audit, make use of the Internal Control Framework and to report to us their observations regarding the design and effectiveness thereof. In circumstances where it was not deemed effective or efficient to rely on the internal control framework of the group, additional substantive procedures have been performed to obtain sufficient and appropriate audit evidence.
- Central IT systems: FrieslandCampina implements one global ERP-system in most of the countries. The majority of the IT systems of the group are operated centrally. Our IT specialists have tested the IT general controls (ITGCs) and IT dependencies of the central ERP systems. During this audit some non-significant findings were identified, which have been mitigated by additional substantive audit procedures. We have shared the results of our audit procedures with the local component teams.
- Shared service centers: FrieslandCampina has multiple shared service centers worldwide. In the Dutch shared service centre the majority of the administration for the Dutch subsidiaries is performed and this shared service centre was therefore audited by the group team. The shared service centers in Malaysia and Budapest are audited by local teams, they report the results of their work with the various local audit teams.
- To give direction to our audit we took notice of the results of the work performed and the reports of Corporate Internal Audit. We do not rely on their work, where relevant we used their results for our risk assessment.

In determining the scope of the group audit we have taken into account, apart from the abovementioned elements, the relative share of the individual components and the risk profile of these components. We marked the Dutch component as significant, none of the other components have been marked as significant based on their size or risk profile. Next to the significant component, we subjected 17 components to audits of their complete financial information to gain sufficient coverage over the financial statement line items, for one component we performed specific audit procedures to achieve appropriate coverage on financial line items in the consolidated financial statements. In total we performed audit procedures at 19 components in 15 countries.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

|                   |     |
|-------------------|-----|
| Revenue           | 85% |
| Total assets      | 87% |
| Profit before tax | 87% |

None of the remaining components represented more than 2% of total group revenue or total group assets. For those remaining components we performed, amongst other, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team. These are the restructuring provisions, the valuation of goodwill and other non-current assets, and significant tax positions. The group engagement team also audits the Dutch activities.

Where component auditors performed the work, we determined the level of involvement we needed to have in their audit work to be able to conclude whether we had obtained sufficient appropriate audit evidence as a basis for our opinion on the consolidated financial statements as a whole.

We issued instructions to the component audit teams in our audit scope. We had individual calls with each of the in-scope component audit teams during the year including upon conclusion of their work. During these calls, we discussed the risk assessment, audit approach, the progress of the audit and, based on the reports of the component auditors, the findings of their procedures and other matters. Where this was deemed necessary, we expanded this by executing file reviews to evaluate the quality of the procedures.



With the financial directors of the business group and the local auditors we discussed the financial results, the significant estimates and the findings identified during the audit. The group engagement team visits the component teams and local management based on size and on a rotational basis. In the current year the group audit team visited the component in Malaysia given that one of the shared service centers is located there. We visited the locations in Germany, Indonesia and the Philippines on a rotational basis.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the supervisory board. The key audit matters are not a comprehensive reflection of all matters identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

We addressed the key audit matters in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we made on the results of our procedures should be read in this context. In comparison to the prior period auditors report the key audit matter related to organisational changes has not been included. This matter is no longer applicable, since the restructuring is effective from 1 January 2018, and as a result of this the judgements are now less complex.

### Key audit matter

#### Reallocation of goodwill and valuation of goodwill, other non-current assets and intangible assets other than goodwill

##### *Refer to note 7 and 8 of the financial statements*

The group recorded € 1.115 million of goodwill related to historical acquisitions. The goodwill is subject to an annual impairment test at the level of individual business groups.

##### *Reallocation of goodwill*

Starting from January 2018 the business group structure has changed as a result of the ongoing transformation program of the group. This change in management structure and reporting to the executive board has led to a change in allocation of historical goodwill. The reallocation was performed pro-rata based on the relative value in use per business group. We have paid specific attention to this change in allocation because, in case of an impairment, an inaccurate allocation can have a significant impact on the results. Therefore, we marked the reallocation of goodwill as an attention point.

##### *Valuation of goodwill*

The valuation of goodwill is complex and involves management estimates, which are inherent uncertain. Given the material impact of goodwill, any change in the assumptions, based on their sensitivity, could have a significant effect on the financial statements. The valuation of goodwill is tested based on the value in use, which is based on the discounted cash flows. The most important assumptions for testing the valuation are the discount rate, the long-term growth rate, the gross margin growth rate and the developments in results.

### Our audit work and observations

##### *Reallocation of goodwill*

Given that the reallocation of goodwill was based on the relative value in use of each business group we paid specific attention to the determination of these value in uses. We refer to the header 'valuation of goodwill' for a description of our audit procedures. We consider the reallocation to be reasonable.

##### *Valuation of goodwill*

We have tested the valuation methodology, the assumptions applied in the goodwill impairment model and we have tested the underlying calculations. Together with the valuation specialists, we have tested the discount rate and long-term growth rate with available market information (such as market interest and inflation) as well as our own independent assessment. We did not find material exceptions. In addition, the gross margin growth rate and result developments are reconciled to the budget and managements forecasts (outlook 2018 and the long-term plans until 2021).

We verified the process regarding budget and forecasting. We have verified management's budget and forecasts by reconciling them with external information and market outlooks. In addition to this, we assessed the outcome of the prior year estimates in order to assess the risks. The estimations as made by management are consistent and in line with our expectations.



### Key audit matter

The role that business group Dairy Essentials has in milk processing, resulting in losses, is compensated by the other business group. The losses of Dairy Essentials caused by the sales of products sold as a result of its milk processing role are allocated to the other business groups is subject to judgement of management.

#### **Valuation of other non-current assets and intangible assets other than goodwill**

The other non-current assets and intangible assets other than goodwill are tested by management for triggering events that might result into an impairment. We paid special attention to the valuation of the aforementioned assets given the dynamic of this international group and the ongoing transformation program. Management concluded that no impairment has to be recognized.

Given the declining results and the change in organisational structure and taking into consideration the complexity and the estimation uncertainty, there is a significant risk that the valuation is overstated.

Based on the above, we consider the reallocation of goodwill and the valuation of goodwill, non-current assets and intangible assets other than goodwill to be a key audit matter.

### Waardering van belastingposities

#### **Refer to note 6, 18 and 23 of the financial statements**

The group has subsidiaries in several countries and is therefore subjected to local tax legislation. In the paragraph 'FrieslandCampina and income tax expense' of the annual report FrieslandCampina's approach towards tax positions is described.

Because of the complexity of multiple local tax regimes, the determination and local acceptance of internal transfer pricing is difficult. The determination can have an impact the local fiscal results and taxes payable.

The recognition and valuation of tax positions is subject to judgement because it involves interpretation of local tax legislation (including the local acceptance of the internal transfer prices as applied by FrieslandCampina). The outcome of legal processes in the relevant tax jurisdiction are difficult to predict and can therefore deviate from the estimation.

Given that the tax positions are material and are inherently uncertain, a significant risk of inaccurate internal transfer prices and inaccurate valuation of tax positions exists. Based on this we consider this a key audit matter for our audit.

### Our audit work and observations

We audited the compensation that takes place between business group Dairy Essentials and the other business groups. We had special attention for the accurate allocation of the losses to the other business groups and the consistency in comparison with previous years. We noted no material findings.

Based on our procedures we concluded that the notes to the financial statements comprise the required information about the estimates, assumptions and sensitivities.

#### **Valuation of other non-current assets and intangible assets other than goodwill**

For the valuation of other non-current assets and intangible assets other than goodwill, we have tested management's assessment based on underlying budgets, plans and reports and verified the consistency of the assumptions with those used in the goodwill impairment model.

Our procedures confirm that the notes to the financial statements contain the required information about the estimated and assumptions used.

We conducted the audit together with international tax specialists. Our procedures consisted of, amongst other, a risk assessment including the evaluation the outcome of estimations that were made by management in prior years. We tested the accuracy of the internal transfer prices by reconciling them to correspondence from the tax authorities, internal transfer pricing documentation and tax legislation combined with our own independent analysis.

Our procedures were focussed on determining whether the legal processes in the relevant tax jurisdictions will lead to a tax liability or provision in the financial statements. For this purpose we assessed, amongst other things, correspondence with the tax authorities.

For the valuation, we have tested the underlying assumptions by reconciling these with budgets and forecasts. We verified the consistency of the budgets and forecasts used with those that were used as a basis for the valuation of goodwill and other non-current assets. We did not identify any material issues.

In addition to this, we have verified whether the required disclosures for the tax positions are adequately disclosed in the financial statements.



## Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- foreword;
- key figures;
- about FrieslandCampina;
- the dairy sector in 2018;
- report of the Executive Board;
- governance;
- overviews;
- appendices; and
- the other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements. By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The executive board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

## Report on other legal and regulatory requirements

### Our appointment

On 30 April 2015, we were, based on nomination of the supervisory board, appointed as auditors of Royal FrieslandCampina N.V. by the general meeting of shareholders. This appointment is reconfirmed on an annual basis by the general meeting of shareholders. We have been auditors of the company for a total period of uninterrupted engagement of 3 years.

## Responsibilities for the financial statements and the audit

### Responsibilities of the executive board and the supervisory board for the financial statements

The executive board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as the executive board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the executive board should prepare the financial statements using the going-concern basis of accounting unless the executive board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The executive board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

**Our responsibilities for the audit of the financial statements**

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Our 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  
15 February 2019  
PricewaterhouseCoopers Accountants N.V.

Original signed by J.E.M. Brinkman RA



## Appendix to our auditor's report on the financial statements 2018 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 executive board's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the consolidated financial statements, we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the Group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the Group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the Group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with the supervisory board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

# Overviews

## Financial history

In millions of euros, unless stated otherwise

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

## 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

|                                  | 2018         | 2017  |
|----------------------------------|--------------|-------|
| Fat price                        | 12.98        | 13.66 |
| Protein price                    | 20.42        | 21.50 |
| Lactose price                    | 2.65         | 2.80  |
| <b>Guaranteed price</b>          | <b>36.05</b> | 37.96 |
| Performance premium              | 0.46         | 1.03  |
| Meadow milk premium <sup>1</sup> | 0.63         | 0.60  |
| Special supplements <sup>2</sup> | 0.16         | 0.12  |
| <b>Cash price</b>                | <b>37.30</b> | 39.71 |
| Issue of member bonds            | 0.13         | 0.30  |
| <b>Milk price</b>                | <b>37.43</b> | 40.01 |
| Additional benefits <sup>3</sup> |              | 0.04  |
| Interest member bonds            | 0.45         | 0.42  |
| Retained earnings                | 0.72         | 1.33  |
| <b>Performance price</b>         | <b>38.60</b> | 41.80 |

<sup>1</sup> Dairy farmers applying pasturing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2018. Of this, an amount of 1.00 euros per 100 kilos of meadow milk is paid from the operating profit. Averaged over all FrieslandCampina member milk, this amounts to 0.63 euros per 100 kilos of milk. Furthermore, another 0.50 euros per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euros per 100 kilos of milk is withheld from all milk. This also pays for the partial meadow milk premium.

<sup>2</sup> Special supplements concerns the total amount paid out per 100 kilos of Landliebe milk (1.00 euro) and the difference between the organic milk guaranteed price (47.46 euro) and the guaranteed price (36.05) per 100 kilos of milk. Averaged over all FrieslandCampina member milk this amounts to 0.16 euro per 100 kilos of milk.

<sup>3</sup> In 2017, 4.8 million euros were paid out (0.04 euros per 100 kilos of milk) in the context of the temporary 10-cent measure.

## Supervisory Board

### Frans (F.A.M.) Keurentjes (1957)

|                        |                                                                                                                                                                                                |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Chairman of the Supervisory Board of Royal FrieslandCampina N.V.<br>Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.                                                            |
| <b>Nationality</b>     | Dutch                                                                                                                                                                                          |
| <b>Profession</b>      | Dairy farmer                                                                                                                                                                                   |
| <b>Other positions</b> | Member of the Executive Board of Top Agri & Food Sector<br>Chairman of Noordelijk Landbouw Beraad<br>Member of Grondkamer Noord<br>Member of the board of NCR (Dutch Council for Cooperatives) |

### Erwin (W.M.) Wunnekink (1970)

|                        |                                                                                                                                               |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V.<br>Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                                         |
| <b>Profession</b>      | Dairy farmer                                                                                                                                  |
| <b>Other positions</b> | Member of the Supervisory Board of ForFarmers N.V.                                                                                            |

### Sandra (J.W.) Addink-Berendsen (1973)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | Member of the Supervisory Board of ForFarmers N.V.<br>Member of the Supervisory Board of Alfa Top-Holding B.V.                  |

### Wout (W.) Dekker (1956)

|                        |                                                                                                                                                   |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.                                                                                    |
| <b>Nationality</b>     | Dutch                                                                                                                                             |
| <b>Other positions</b> | Chairman of the Supervisory Board of Randstad N.V.<br>Member of the Supervisory Board of SHV Holdings N.V.<br>Managing Director of Women on Wings |

### Bert (B.E.G.) ten Doeschot (1971)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | Member of the Supervisory Board of Rabobank Centraal Twente<br>Member of Grondkamer Oost                                        |

### Tex (L.W.) Gunning (1950)

|                        |                                                                                                                                                                                                                                                                                                                                             |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.                                                                                                                                                                                                                                                                              |
| <b>Nationality</b>     | Dutch                                                                                                                                                                                                                                                                                                                                       |
| <b>Other positions</b> | CEO and Chairman of the Managing Board of LeasePlan Corporation N.V.<br>Member of the Supervisory Board of Nexes Institute<br>Member of the Supervisory Board of WNF (Dutch World Wildlife Fund)<br>Member of the Supervisory Board of Vereniging Erasmus Trustfonds<br>Chairman of the board of GrachtenFestival<br>Chairman of Effie Jury |

### Hans (H.T.J.) Hettinga (1959)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | CDA Board member Súdwest-Fryslân Municipal Council                                                                              |

### René (D.R.) Hooft Graafland (1955)

|                        |                                                                                                                                                                                                                                                                                                                                                  |
|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.                                                                                                                                                                                                                                                                                   |
| <b>Nationality</b>     | Dutch                                                                                                                                                                                                                                                                                                                                            |
| <b>Other positions</b> | Vice-chairman of the Supervisory Board of Wolters Kluwer N.V.<br>Member of the Supervisory Board of Royal Ahold Delhaize N.V.<br>Chairman of the Board of the African Parks Foundation<br>Chairman of the Board of Nationaal Fonds 4 en 5 mei Foundation<br>Chairman Carré Fonds<br>Member of the Corporate Governance Code Monitoring Committee |

### Cor (C.C.H.) Hoogeveen (1962)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | None                                                                                                                            |

### Angelique (A.A.M.) Huijben-Pijnenburg (1968)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | None                                                                                                                            |

**Gjalt (G.) Mulder** (1970)

|                        |                                                                                                                                 |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A. |
| <b>Nationality</b>     | Dutch                                                                                                                           |
| <b>Profession</b>      | Dairy farmer                                                                                                                    |
| <b>Other positions</b> | Member of the AB Fryslân and Noord-Holland Members' Council                                                                     |

**Hans (H.) Stöcker** (1964)

|                        |                                                                                                                                                                                                                                                                                                                                                                                                                       |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.<br>Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.                                                                                                                                                                                                                                                                                       |
| <b>Nationality</b>     | German                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Profession</b>      | Dairy farmer                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Other positions</b> | Chairman Landesvereinigung Milch NRW<br>Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW<br>Member of the Kreisstelle Oberberg der Landwirtschaftskammer Nordrhein-Westfalen<br>Member of the Landschaftsbeirat Oberbergischer Kreis<br>Member of the Supervisory Board of Raiffeisen Warengenossenschaft Rheinland eG<br>Chairman of the 'Milch und Kultur Rheinland und Westfalen' Association |

**Ben (B.) van der Veer** (1951)

|                        |                                                                                                                                    |
|------------------------|------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>        | Member of the Supervisory Board of Royal FrieslandCampina N.V.                                                                     |
| <b>Nationality</b>     | Dutch                                                                                                                              |
| <b>Other positions</b> | Non-executive Director RELX Plc.<br>Member of the Supervisory Board of Aegon N.V.<br>Member of the Supervisory Board of Vopak N.V. |

**Audit Committee**

Ben van der Veer, Chairman  
René Hooft Graafland  
Sandra Addink-Berendsen  
Angelique Huijben-Pijnenburg

**Remuneration & Appointment Committee**

Wout Dekker, Chairman  
Frans Keurentjes  
Erwin Wunnekink

## Executive Board

### Hein (H.M.A.) Schumacher (1971)

|                         |                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>         | Chief Executive Officer                                                                                                                                                                                                                                                                                                                                               |
| <b>Appointment</b>      | 1 January 2018                                                                                                                                                                                                                                                                                                                                                        |
| <b>Nationality</b>      | Dutch                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Responsible for:</b> | Business groups, FrieslandCampina China<br>Cooperative Affairs<br>Corporate Affairs & Communication<br>Corporate Human Resources<br>Corporate Internal Audit<br>Corporate Legal Department & Company Secretariat<br>Corporate Public Affairs<br>Global Research & Development<br>Corporate Strategy & Fast Forward transformation programme<br>Corporate Supply Chain |
| <b>Other positions</b>  | Member of the Board of the Dutch Dairy Association (NZO)<br>Member of the Supervisory Board of the TIAS School for Business & Society                                                                                                                                                                                                                                 |

### Jaska (J.M.) de Bakker (1970)

|                         |                                                                                                                                                                                                                                                                                                                                             |
|-------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Position</b>         | Chief Financial Officer                                                                                                                                                                                                                                                                                                                     |
| <b>Appointment</b>      | 1 January 2018                                                                                                                                                                                                                                                                                                                              |
| <b>Nationality</b>      | Dutch                                                                                                                                                                                                                                                                                                                                       |
| <b>Responsible for:</b> | Corporate Finance & Reporting<br>Corporate ICT and Digital<br>Corporate Mergers & Acquisitions<br>Corporate Tax<br>Corporate Treasury<br>Fast Forward transformation and FORCE programme<br>Global Finance Processes & Shared Services, Enterprise Risk Management,<br>Corporate Real Estate and Corporate Internal Control<br>Summit & PTO |
| <b>Other positions</b>  | None                                                                                                                                                                                                                                                                                                                                        |

## Executive leadership Team

|                          |                                                  |
|--------------------------|--------------------------------------------------|
| <b>Hein Schumacher</b>   | Chief Executive Officer                          |
| <b>Jaska de Bakker</b>   | Chief Financial Officer                          |
| <b>Roel van Neerbos</b>  | President FrieslandCampina Consumer Dairy        |
| <b>Berndt Kodden</b>     | President FrieslandCampina Specialised Nutrition |
| <b>Hans Meeuwis</b>      | President FrieslandCampina Dairy Essentials      |
| <b>Kathy Fortmann</b>    | President FrieslandCampina Ingredients           |
| <b>Rahul Colaco</b>      | President FrieslandCampina China                 |
| <b>Geraldine Fraser</b>  | Corporate Director Human Resources               |
| <b>Margrethe Jonkman</b> | Global Director Research & Development           |
| <b>Roman Scieszka</b>    | Corporate Director Supply Chain                  |

# Appendices

## Appendix 1. GRI table

| Indicator                          | Description                                                                                                                                                                     | Reference                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>GRI 102: General Indicators</b> |                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Organisation Profile</b>        |                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                            |
| 102-1                              | Name of the organisation                                                                                                                                                        | AR: cover sheet; This is FrieslandCampina p. 6                                                                                                                                                                                                                                                                                                                                             |
| 102-2                              | Key brands, products and/or services                                                                                                                                            | AR: A good living for our farmers – results by business group p. 16; This is FrieslandCampina – Cooperative and Company, Brands – for customers and consumers p. 6; Profile, back cover                                                                                                                                                                                                    |
| 102-3                              | Location of the organisation's head office                                                                                                                                      | AR: Profile, back cover                                                                                                                                                                                                                                                                                                                                                                    |
| 102-4                              | Number of countries where the organisation is active                                                                                                                            | AR: This is FrieslandCampina – Cooperative and Company p. 6; Profile, back cover; Consolidated Financial Statements p. 49                                                                                                                                                                                                                                                                  |
| 102-5                              | Ownership structure and legal form                                                                                                                                              | AR: This is FrieslandCampina – Cooperative and Company p. 6; Profile, back cover                                                                                                                                                                                                                                                                                                           |
| 102-6                              | Sales markets                                                                                                                                                                   | AR: This is FrieslandCampina – Cooperative and Company p. 6; Profile, back cover                                                                                                                                                                                                                                                                                                           |
| 102-7                              | Size of the reporting organisation                                                                                                                                              | AR: Key Figures p. 5; This is FrieslandCampina – Cooperative and Company p. 6; Our employees p. 27; A good living for our farmers – Strengthened financial position p. 18                                                                                                                                                                                                                  |
| 102-8                              | Composition of workforce                                                                                                                                                        | AR: Key Figures p. 5; Our employees p. 27<br>Appendix 5: HR data p. 144<br>The workforce primarily consists of the Company's own employees. The HR KPIs were consolidated through means of our global HR system.                                                                                                                                                                           |
| 102-9                              | Description of the organisation's supply chain                                                                                                                                  | AR: This is FrieslandCampina – Cooperative and Company p. 6; Profile, back cover                                                                                                                                                                                                                                                                                                           |
| 102-10                             | Significant changes during the reporting period                                                                                                                                 | AR: A good living for our farmers – results by business group p. 16; Report of the Executive Board p. 13                                                                                                                                                                                                                                                                                   |
| 102-11                             | Explanation of the application of the precautionary principle by the reporting organisation                                                                                     | AR: Risk management p. 29                                                                                                                                                                                                                                                                                                                                                                  |
| 102-12                             | Externally developed economic, environmental and social charters, principles that the organisation is committed to                                                              | AR: Better nutrition – Foqus: quality and safety p. 14                                                                                                                                                                                                                                                                                                                                     |
| 102-13                             | Memberships of associations (including sector boards) and national and international special interest groups                                                                    | AR: Better nutrition – Foqus: quality and safety p. 14; Now and for generations to come – Sustainable development through partnerships p. 25<br>See: <a href="https://www.frieslandcampina.com/en/sustainability/csr-in-practice/memberships-collaboration-and-covenants/">https://www.frieslandcampina.com/en/sustainability/csr-in-practice/memberships-collaboration-and-covenants/</a> |
| <b>Strategy</b>                    |                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                            |
| 102-14                             | Statement of the highest decision-maker                                                                                                                                         | AR: Foreword p. 4                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Ethics and integrity</b>        |                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                            |
| 102-16                             | Standards, values, principles, standards and codes of conduct applied                                                                                                           | AR: Our employees – Compass p. 28                                                                                                                                                                                                                                                                                                                                                          |
| <b>Management structure</b>        |                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                            |
| 102-18                             | The management structure of the highest decision-making body and the committees that are responsible for decision-making relating to social, environmental and economic impacts | AR: Corporate governance p. 32; Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                    |

| Indicator                             | Description                                                                      | Reference                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Consultation with stakeholders</b> |                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 102-40                                | List of stakeholders involved                                                    | AR: Appendix 3: Stakeholder dialogue p. 140                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 102-41                                | Employees subject to a CLA                                                       | AR: Appendix 5: HR data p. 144                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 102-42                                | Starting points for identification/selection of stakeholders                     | AR: Appendix 3: Stakeholder dialogue p. 140                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 102-43                                | How stakeholders are involved                                                    | AR: Appendix 3: Stakeholder dialogue p. 140<br>The Executive Board has formal final responsibility for contact with FrieslandCampina's stakeholders. The CEO and CFO have been actively involved in the dialogue between the Executive Board and the member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. (the shareholder) and the investors.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 102-44                                | Key topics and issues that resulted from consultation with stakeholders          | AR: Appendix 3: Stakeholder dialogue p. 140                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Reporting profile</b>              |                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| 102-45                                | Companies in the annual financial statements that are not subject to this report | AR: Consolidated Financial Statements p. 49                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 102-46                                | Process for determining reporting content and specific demarcation               | AR: Appendix 2: Materiality analysis and safeguarding sustainability p. 138<br>The material themes 'animal health and welfare', 'reducing greenhouse emissions on the farm' and 'quality and safety of raw milk', fall within the chain under member dairy farmers (Zuivelcoöperatie FrieslandCampina U.A.). The themes 'contributing to better nutrition through healthy products' and 'contributing to affordable nutrition' are relevant for customers and consumers. Themes such as 'economic performance and long-term viability', 'innovation', 'energy efficiency in production', 'product quality and safety' fall within the Company's organisational boundaries. Themes such as 'support for local farmers through knowledge development' and 'sustainably managed ingredients in our dairy processing' fall within the broader societal scope. |
| 102-47                                | Material issues identified                                                       | AR: Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 102-48                                | Consequences of a possible redefinition of information                           | AR: None of the information was reformulated<br>Emission factors are regularly adjusted on the basis of the most recent scientific insights. The comparative greenhouse emissions for 2017 were updated on this basis.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| 102-49                                | Significant changes compared to previous reporting periods                       | AR: No significant changes were made to the scope and demarcation relating to the previous reporting period.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 102-50                                | Reporting period that the information provided relates to                        | 1 January through 31 December 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 102-51                                | Date of the most recent previous report                                          | The last Annual Report was published in February 2018, the CSR Report in April 2018.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 102-52                                | Reporting cycle                                                                  | Annually.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| 102-53                                | Contact for questions regarding the report                                       | If you have any questions or comments, please send an e-mail to: <a href="mailto:corporate.communication@frieslandcampina.com">corporate.communication@frieslandcampina.com</a> .                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| 102-54                                | GRI application level and GRI table                                              | AR: This report has been prepared in accordance with the GRI Standards: Core option.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 102-56                                | Policy with respect to assurance                                                 | AR: Assurance Report of the Independent Auditor p. 147; Corporate Governance – Audit of the financial reporting and the roles of the internal and external auditors p. 36                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

| Indicator                                                                                                            | Description                                                   | Reference                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Specific indicators</b>                                                                                           |                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <b>Animal health and animal welfare</b>                                                                              |                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1 (2016)                                                                                                         | Management approach:<br>Why is this topic material?           | AR: Now and for generations to come p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Lifespan cows p. 25; Now and for generations to come - Pasture grazing p. 25<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                               |
| 103-2 (2016)                                                                                                         | Management approach:<br>How is this material topic managed?   | AR: Now and for generations to come p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 26;<br>Now and for generations to come - Lifespan cows p. 25; Now and for generations to come - Pasture grazing p. 25                                                                                                                                                                                                                                                                                                                                                                          |
| 103-3 (2016)                                                                                                         | Management approach:<br>How is this material topic evaluated? | AR: Now and for generations to come p. 27;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Lifespan cows p. 25; Now and for generations to come - Pasture grazing p. 25<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                               |
| Internal indicator                                                                                                   | Economic life of cows                                         | AR: Now and for generations to come - Lifespan cows p. 25                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Internal indicator                                                                                                   | Pasture grazing                                               | AR: Now and for generations to come - Pasture grazing p. 25                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Reducing greenhouse gases at the farm (Standards, aspect: Greenhouse gases, Energy) - GRI Standard 305 (2016)</b> |                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1 (2016)                                                                                                         | Management approach:<br>Why is this topic material?           | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 25;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 103-2 (2016)                                                                                                         | Management approach:<br>How is this material topic managed?   | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 25;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;                                                                            |

| Indicator                                                                                                                                      | Description                                                                                                                                                      | Reference                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 103-3 (2016)                                                                                                                                   | Management approach:<br>How is this material topic evaluated?                                                                                                    | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 25;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 305-1                                                                                                                                          | Direct greenhouse gas emissions (Scope 1)                                                                                                                        | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 305-2                                                                                                                                          | Indirect greenhouse gas emissions (Scope 2)                                                                                                                      | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Contributing to better nutrition through healthy products (Standards, aspect: Healthy users)</b>                                            |                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1 (2016)                                                                                                                                   | Management approach:<br>Why is this topic material?                                                                                                              | AR: Better nutrition p. 14; Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 103-2 (2016)                                                                                                                                   | Management approach:<br>How is this material topic managed?                                                                                                      | AR: Better nutrition p. 14                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| 103-3 (2016)                                                                                                                                   | Management approach:<br>How is this material topic evaluated?                                                                                                    | Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| FP6                                                                                                                                            | Percentage of the total sales volume of consumer products in which the quantities of saturated fat, trans-fat, sodium or added sugars have been reduced          | AR: Better nutrition p. 14; Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Sustainably managed ingredients in our dairy processing (such as palm oil, sugar, starch, cocoa, etc.) (Standards, aspect: Procurement)</b> |                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1 (2016)                                                                                                                                   | Management approach:<br>Why is this topic material?                                                                                                              | AR: Now and for generations to come - Sustainable procurement of agricultural raw materials and packaging p. 24;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 103-2 (2016)                                                                                                                                   | Management approach:<br>How is this material topic managed?                                                                                                      | AR: Now and for generations to come - Sustainable procurement of agricultural raw materials and packaging p. 24                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-3 (2016)                                                                                                                                   | Management approach:<br>How is this material topic evaluated?                                                                                                    | Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| FP2                                                                                                                                            | Percentage of purchased volume verified as being in compliance with credible internationally recognised responsible production standards, specified per standard | AR: Now and for generations to come - Sustainable procurement of agricultural raw materials and packaging p. 24                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

| Indicator                                                                                                                                 | Description                                                                                                                                 | Reference                                                                                                                                                                                                                                                                                                         |
|-------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Support to local farmers based on knowledge development</b>                                                                            |                                                                                                                                             |                                                                                                                                                                                                                                                                                                                   |
| 103-1 (2016)                                                                                                                              | Management approach:<br>Why is this topic material?                                                                                         | AR: A good living for our farmers p. 16;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                               |
| 103-2 (2016)                                                                                                                              | Management approach:<br>How is this material topic managed?                                                                                 | AR: A good living for our farmers p. 16                                                                                                                                                                                                                                                                           |
| 103-3 (2016)                                                                                                                              | Management approach:<br>How is this material topic evaluated?                                                                               | AR: A good living for our farmers p. 16;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                               |
| Internal indicator                                                                                                                        | Local farmers who participate in a training programme in DDP countries                                                                      | AR: A good living for our farmers – Dairy Development Programme p. 20                                                                                                                                                                                                                                             |
| Internal indicator                                                                                                                        | Local dairy farms that at a minimum received a 'satisfactory' rating in relation to the FAO's Good Dairy Farming Practices in DDP countries | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                              |
| <b>Product quality and safety (Standards, aspect: Health and safety at work and customer health and safety) – GRI Standard 403 (2018)</b> |                                                                                                                                             |                                                                                                                                                                                                                                                                                                                   |
| 103-1 (2016)                                                                                                                              | Management approach:<br>Why is this topic material?                                                                                         | AR: Our employees – Safety p. 27;<br>Now and for generations to come – More sustainable dairy farms with Foqus planet p. 24;<br>Our employees – Compass p. 28;<br>Better nutrition – Innovation; Foqus: quality and food safety p. 14;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 103-2 (2016)                                                                                                                              | Management approach:<br>How is this material topic managed?                                                                                 | AR: Our employees – Safety p. 27;<br>Now and for generations to come – More sustainable dairy farms with Foqus planet p. 24;<br>Our employees – Compass p. 28;<br>Better nutrition – Innovation; Foqus: quality and food safety p. 14                                                                             |
| 103-3 (2016)                                                                                                                              | Management approach:<br>How is this material topic evaluated?                                                                               | AR: Our employees – Safety p. 27;<br>Now and for generations to come – More sustainable dairy farms with Foqus planet p. 24;<br>Our employees – Compass p. 28;<br>Better nutrition – Innovation; Foqus: quality and food safety p. 14;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| PR1                                                                                                                                       | Percentage of significant product and service categories for which the health and safety impact was measured                                | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                              |
| <b>Improving the local economy through adequate income for dairy farmers in Asia and Africa</b>                                           |                                                                                                                                             |                                                                                                                                                                                                                                                                                                                   |
| 103-1 (2016)                                                                                                                              | Management approach:<br>Why is this topic material?                                                                                         | AR: <i>Nourishing by nature</i> – A good living for our farmers p. 8;<br>A good living for our farmers p. 16<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                           |
| 103-2 (2016)                                                                                                                              | Management approach:<br>How is this material topic managed?                                                                                 | AR: <i>Nourishing by nature</i> – A good living for our farmers p. 8;<br>A good living for our farmers p. 16                                                                                                                                                                                                      |
| 103-3 (2016)                                                                                                                              | Management approach:<br>How is this material topic evaluated?                                                                               | AR: <i>Nourishing by nature</i> – A good living for our farmers p. 8;<br>A good living for our farmers p. 16<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                           |
| Internal indicator                                                                                                                        | A good living for our farmers                                                                                                               | AR: Key Figures p. 5; A good living for our farmers p. 16                                                                                                                                                                                                                                                         |

| Indicator                              | Description                                                   | Reference                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------------------------|---------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Quality and safety of raw milk</b>  |                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1<br>(2016)                        | Management approach:<br>Why is this topic material?           | AR: Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Better nutrition - Foqus: quality and food safety p. 14;<br>Risk management framework p. 37; Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                              |
| 103-2<br>(2016)                        | Management approach:<br>How is this material topic managed?   | AR: Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Better nutrition - Foqus: quality and food safety p. 14;<br>Risk management framework p. 37;                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 103-3<br>(2016)                        | Management approach:<br>How is this material topic evaluated? | AR: Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Better nutrition - Foqus: quality and food safety p. 14;<br>Risk management framework p. 37; Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                                                                                                                                                                                                                                              |
| Internal indicator                     | Quality and safety of raw milk                                | AR: Better nutrition - Foqus: quality and food safety p. 14                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Energy efficiency in production</b> |                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 103-1<br>(2016)                        | Management approach:<br>Why is this topic material?           | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 24;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 103-2<br>(2016)                        | Management approach:<br>How is this material topic managed?   | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 24;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;                                                                            |
| 103-3<br>(2016)                        | Management approach:<br>How is this material topic evaluated? | AR: Now and for generations to come p. 23;<br>Now and for generations to come - Reducing the ecological footprint throughout the entire chain p. 23;<br>Now and for generations to come - More sustainable dairy farms with Foqus planet p. 24;<br>Now and for generations to come - Reducing greenhouse gas emissions on dairy farms p. 24;<br>Now and for generations to come - Dairy farms as producers of electricity p. 24;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| Internal indicator                     | Energy consumption                                            | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Internal indicator                     | Greenhouse gas emission production and transport              | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Internal indicator                     | Greenhouse emissions on member dairy farms                    | AR: Key Figures p. 5                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |

| Indicator                                                                                                               | Description                                                 | Reference                                                                                                                                                                                                                                                                                                   |
|-------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Innovation</b>                                                                                                       |                                                             |                                                                                                                                                                                                                                                                                                             |
| 103-1 (2016)                                                                                                            | Management approach: Why is this topic material?            | AR: Better nutrition - Innovation p. 14;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                    |
| 103-2 (2016)                                                                                                            | Management approach: How is this material topic managed?    | AR: Better nutrition - Innovation p. 14;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23                                                                                                                                                |
| 103-3 (2016)                                                                                                            | Management approach: How is this material topic evaluated?  | AR: Better nutrition - Innovation p. 14;<br>Now and for generations to come - More green electricity and energy efficiency in production and transport p. 23;<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                    |
| Internal indicator                                                                                                      | Investments in Research & Development activities            | AR: Better nutrition - Innovation p. 14                                                                                                                                                                                                                                                                     |
| <b>Economic performance and long-term viability (Standards, aspect: Economic performance) - GRI Standard 201 (2016)</b> |                                                             |                                                                                                                                                                                                                                                                                                             |
| 103-1 (2016)                                                                                                            | Management approach: Why is this topic material?            | AR: Report of the Executive Board p. 13; A good living for our farmers p. 16;<br>Risk management framework p. 37;<br>The Executive Board and the CFO in particular are responsible for FrieslandCampina's financial performance.<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 103-2 (2016)                                                                                                            | Management approach: How is this material topic managed?    | AR: Report of the Executive Board p. 13; A good living for our farmers p. 16;<br>Risk management framework p. 37;<br>The Executive Board and the CFO in particular are responsible for FrieslandCampina's financial performance.                                                                            |
| 103-3 (2016)                                                                                                            | Management approach: How is this material topic evaluated?  | AR: Report of the Executive Board p. 13; A good living for our farmers p. 16;<br>Risk management framework p. 37;<br>The Executive Board and the CFO in particular are responsible for FrieslandCampina's financial performance.<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138 |
| 201-1                                                                                                                   | Direct economic value generated and distributed             | AR: Key Figures p. 5; A good living for our farmers p. 16                                                                                                                                                                                                                                                   |
| <b>Contributing to affordable nutrition</b>                                                                             |                                                             |                                                                                                                                                                                                                                                                                                             |
| 103-1 (2016)                                                                                                            | Management approach: Why is this topic material?            | AR: <i>Nourishing by nature</i> - Better nutrition p. 8; Better nutrition - Access to food p. 15<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                 |
| 103-2 (2016)                                                                                                            | Management approach: How is this material topic managed?    | AR: <i>Nourishing by nature</i> - Better nutrition p. 9; Better nutrition - Access to food p. 15                                                                                                                                                                                                            |
| 103-3 (2016)                                                                                                            | Management approach: How is this material topic evaluated?  | AR: <i>Nourishing by nature</i> - Better nutrition p. 8; Better nutrition - Access to food p. 15<br>Appendix 2: Materiality analysis and safeguarding sustainability p. 138                                                                                                                                 |
| Internal indicator                                                                                                      | Availability of affordable food for broad population groups | AR: Better nutrition - Access to food - FrieslandCampina highest gain on Access to Nutrition Index p. 15                                                                                                                                                                                                    |

## Appendix 2: Materiality analysis and safeguarding sustainability

### 1.1 Determining content

FrieslandCampina applies the materiality principle to determine which issues should be included in the reporting that are relevant to FrieslandCampina and its stakeholders or that has a significant impact on society. These topics are included in the reporting.

A materiality definition was developed that consists of the following steps:

#### Step 1: Recalibration of relevant themes

To maintain insight into trends and developments, and where necessary to refine objective and policy, the material themes were recalibrated this year. The following sources were used as a basis for this:

- Previous FrieslandCampina annual reports and insights;
- The GRI guidelines and the sector appendix for dairy processing and food processing;
- The ISO 26000 guidelines.

Internal experts in the area of corporate social responsibility and stakeholders have made a substantive contribution. The result is a modified list of 31 relevant themes. A theme is relevant when FrieslandCampina has or can have influence on it. This applies within the Company, as well as in the value chain.

#### Step 2 - Prioritising the themes

Next, the relevant themes are prioritised and the themes to be included in the materiality matrix are determined. The prioritisation makes a distinction between the impact of FrieslandCampina and the impact of external stakeholder on significant social, environmental or economic issues. The impact of FrieslandCampina is determined by internal experts. To determine the impact of external stakeholders, an online questionnaire with the identified relevant themes was presented to a broader group of external stakeholders, such as regulatory authorities, suppliers, professional experts, customers and NGOs. The expectations and interests of all stakeholder groups were equally weighted in the process used to establish the material issues.

#### Step 3 - Impact on policy and reporting

We decided to use an outside-in approach to recalibrate our material themes. This means that the questionnaire included topics that are important to our stakeholders with respect to FrieslandCampina's core tasks. The outcome of this analysis was included in determining the themes on which FrieslandCampina will be focusing. The material issues partly form the basis of FrieslandCampina's strategy and therefore of the content of this report. The Executive Board was involved in developing and approving the sustainability strategy. The Executive Board at a minimum

is informed about the progress of the sustainability strategy and material issues on a quarterly basis so that adjustments can be made as necessary. The Materiality matrix identifies the material issues, and shows how these are linked to the strategy.

Materiality Matrix



### 1.2 Definitions and measuring methods

The Corporate Sustainability department and the Sustainability Council are responsible for the collection and verification of the reported information. The information is submitted by the various operating companies, the supply chain organisations of the business groups and the relevant corporate and support departments. Environmental and HR data is retrieved from the central financial data system on a monthly basis.

No material uncertainties or inherent limitations were detected in the data due to measurements, estimates or calculations. Any changes in the data definitions and measuring methods compared to previous years are indicated accordingly with the data. For the definition of the terms in this report, see Appendix 6: Glossary.

### 1.3 Governance

FrieslandCampina's Executive Board has final responsibility for FrieslandCampina's sustainability policy, including the policy on material issues. The development and coordination of this policy are the responsibility of the Corporate Sustainability department. The Sustainability Council is responsible for assessment, evaluation and consultation. This Council meets once a quarter to discuss the progress and ambitions as set out in our purpose *nourishing by nature*. The Sustainability Council is chaired by the President FrieslandCampina Ingredients.

Corporate Sustainability has various responsibilities, including:

- Developing and updating the sustainability policy;
- Engaging stakeholders in dialogue;
- Coordinating and facilitating the implementation of the sustainability policy;
- Involving external stakeholders in the sustainability policy;
- Demonstrating sustainability efforts to both internal and external stakeholders;
- Supporting the business groups and operating companies in translating the corporate sustainability policy to brand and other policies. The business groups and operating companies are primarily responsible for implementing the sustainability policy within the Company.

## Appendix 3: Stakeholder dialogue

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

this basis. The frequency of the contact varies per group of stakeholders

### In dialogue with stakeholders

FrieslandCampina is continuously in dialogue with a wide range of stakeholders with diverging interests. These discussions take place by employees at all levels within the organisation and often form part of their daily work. The table below provides an overview of the stakeholders with which FrieslandCampina maintained contact in 2018. The type of dialogue is also shown, as are the topics of discussion and the ambitions and actions arising from this.

| Stakeholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Topics of Discussion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Actions and Outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Non-governmental organisations (NGOs) and interest groups</b> <ul style="list-style-type: none"> <li>- Nederlandse Zuivel Organisatie (Dutch Dairy Association, NZO)</li> <li>- Duurzame zuivelketen (Sustainable Dairy Chain, DZK)</li> <li>- Global Dairy Platform (GDP)</li> <li>- World Wide Fund for Nature (WWF)</li> <li>- Solidaridad</li> <li>- Stichting Natuur &amp; Milieu (Nature &amp; Environment Foundation)</li> <li>- Greenpeace</li> <li>- Dierenbescherming (Animal Protection)</li> <li>- Agriterra</li> <li>- Circular Economy Organisation</li> <li>- Dutch Sustainable Growth Coalition</li> <li>- Dutch Biorefinery Cluster</li> <li>- JOGG</li> <li>- Food Education Platform</li> <li>- Platform Sterke Botten (Strong Bones Platform)</li> <li>- CORPUS Reis door de Mens (Journey through Man)</li> <li>- Access to Nutrition Foundation</li> </ul> | <ol style="list-style-type: none"> <li>1. Progress sustainability agenda of the Sustainable Dairy Chain, NZO and GDP.</li> <li>2. Sustainability of the palm oil used in products.</li> <li>3. Sustainability of selected fruit varieties.</li> <li>4. Assurance that soy in animal feed is produced sustainably on the basis of the RTRS criteria.</li> <li>5. Interpretation of the term biodiversity within the dairy farming sector.</li> <li>6. Lifestyle education programmes.</li> <li>7. Practical and scalable implementation of circular earnings models.</li> <li>8. More fully realise the economic value of biomass, which at the same time benefits the environment and the social environment.</li> <li>9. Focusing attention on the importance of strong bones.</li> <li>10. Disseminating knowledge and experiencing information about keeping the body healthy, exercising and healthy eating.</li> </ol> | <ol style="list-style-type: none"> <li>1. The results and progress on targets and objectives were discussed, and valuable input was received during this process.</li> <li>2. Additional steps were taken in the separate processing of sustainable palm oil.</li> <li>3. In collaboration with Solidaridad, criteria for sustainable fruit varieties were defined.</li> <li>4. NZO organised a broader implementation of the sustainable soy initiative in surrounding countries. As a result, as of 2015, all feed concentrates for cows in the Netherlands comply with RTRS criteria.</li> <li>5. FrieslandCampina developed a Biodiversity Monitor in collaboration with the WWF and the Rabobank.</li> <li>6. The platform Everyone Fit at School was developed in collaboration with JOGG. Continued development of taste lessons.</li> <li>7. Innovations for valorising residual streams and biomass, while at the same time innovating new products, processes and value chains. Shared packaging approach, clean ocean shipping and production of renewable energy.</li> <li>8. Soil programme with a simultaneous focus on soil fertility and the security of raw materials.</li> <li>9. FrieslandCampina is a partner of the Strong Bones Platform that draws attention to the importance of strong bones. One of the activities is the organisation of the 'Jump for your bones' event for parents and children.</li> <li>10. An interactive and educational component about the role of dairy in health.</li> </ol> |

| Stakeholders                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Topics of Discussion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Actions and Outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Science</b> <ul style="list-style-type: none"> <li>- Top Institute for Food and Nutrition</li> <li>- Wageningen LEI</li> <li>- Knowledge institutes, government and companies in the Top Agri &amp; Food sector</li> <li>- Harokopio University, Greece</li> </ul>                                                                                                                                                                                                                                                                     | <ol style="list-style-type: none"> <li>1. Improving the reliability of sustainability data, for example in the Kringloopwijzer [a livestock life cycle management guide].</li> <li>2. Research into improvements in the nutritional value of dairy products.</li> <li>3. Development of education programmes on nutrition and exercise for primary schools.</li> <li>4. Initiated a Regenerative Farming project.</li> </ol>                                                                                                                                                                                                                                   | <ol style="list-style-type: none"> <li>1. Improved calculations concerning the Kringloopwijzer, enabling dairy farmers to better manage the mineral recycling loop.</li> <li>2. Support for the further development of the Biodiversity Monitor in the DZK PPP construction.</li> <li>3. Harokopio University developed a teaching programme and implemented a pilot at ten primary schools in Athens.</li> </ol>                                                                                                                                                                                                                                       |
| <b>Employees</b> <ul style="list-style-type: none"> <li>- Central Works Council</li> <li>- Year-end evaluations</li> <li>- Safety communications programme</li> <li>- Code of conduct for good business conduct (Compass) &amp; Speak-Up procedure</li> <li>- Behaviour and culture programme (WIN-WIN)</li> <li>- Sustainability Community</li> </ul>                                                                                                                                                                                    | <ol style="list-style-type: none"> <li>1. FrieslandCampina's social responsibility as employer.</li> <li>2. Employee health and safety.</li> <li>3. Good business conduct and an open culture in which employees feel free to express themselves.</li> <li>4. Increase speed and sharpness (winner's mentality) in the Company.</li> <li>5. Mobilise employees and member dairy farmers in support of sustainability.</li> </ol>                                                                                                                                                                                                                               | <ol style="list-style-type: none"> <li>1. Conducted Over2You survey among all employees.</li> <li>2. Ongoing communications programme on work safety.</li> <li>3. New employees attended an introduction session and completed mandatory e-learning about Compass and Speak Up. In addition, employees completed mandatory e-learning and training courses about Compass topics that are relevant to their position.</li> <li>4. WIN-WIN communication to all employees. The global WIN-WIN award was presented to the PlanetProof team.</li> <li>5. Monthly Sustainability Community sessions and communication relating to sustainability.</li> </ol> |
| <b>Member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A.</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | <ol style="list-style-type: none"> <li>1. Refinement of the Focus quality and sustainability programme</li> <li>2. Proposal for balanced growth</li> <li>3. Generation of green electricity and installation of solar panels on farms.</li> <li>4. Development of special milkstreams</li> <li>5. Alignment of the Company strategy <i>Our Purpose, Our Plan</i> with the Cooperative's vision <i>The Merits of Milk</i>.</li> </ol>                                                                                                                                                                                                                           | <ol style="list-style-type: none"> <li>1. Approval of the refined Focus planet programme</li> <li>2. Following in-depth discussions with members throughout the country, the Members' Council approved the balanced growth proposal.</li> <li>3. In 2018: 50 member dairy farms fitted with solar panels. In total, 772 members signed up for this programme.</li> <li>4. Organisation of various milk streams, including the 'On the way to PlanetProof' milk stream and expansion of the VLOG (non-GMO) milk stream</li> <li>5. Member meetings to explain the strategy and vision.</li> </ol>                                                        |
| <b>Government bodies and local authorities</b> <ul style="list-style-type: none"> <li>- The Clean and Economic Agricultural Sectors Covenant, and the Sustainable Livestock Farming Implementation Agenda</li> <li>- Permit issuing institutions</li> <li>- Dutch dairy sector</li> <li>- Ministry of Health, Welfare and Sport (VWS) and Ministry of Agriculture, Nature and Food Quality (LNV)</li> <li>- Department of Education, Malaysia</li> <li>- Ministry of Health, Indonesia</li> <li>- Ministry of Health, Pakistan</li> </ul> | <ol style="list-style-type: none"> <li>1. Progress of goals adopted from the Clean and Economic Agricultural Sectors Covenant, and the Sustainable Livestock Farming Implementation Agenda.</li> <li>2. Discussion of progress of the individual environmental permits.</li> <li>3. Prevention agreement and front-side packaging labelling education programmes.</li> <li>4. Marketing focused on children.</li> <li>5. FrieslandCampina's role in addressing diseases of affluence, malnutrition and food security.</li> <li>6. Sugar reduction roadmap for the European Union.</li> <li>7. Contact as part of the Drink. Move.BeStrong campaign.</li> </ol> | <ol style="list-style-type: none"> <li>1. FrieslandCampina complies with the objectives agreed upon in accordance with the long-term agreements on energy efficiency (MJA3 agreement).</li> <li>2. Input was provided about the reformulation, labelling, nutrient profiles and the prevention agreement through the membership of the FNLI, NZO and EDA.</li> </ol>                                                                                                                                                                                                                                                                                    |

| Stakeholders                                                                                                                                                                                                                                   | Topics of Discussion                                                                                                                                                                                                                                                                                   | Actions and Outcomes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Buyers</b> <ul style="list-style-type: none"> <li>- Dairy Sustainability Framework (DSF)</li> <li>- SAI Platform</li> </ul>                                                                                                                 | <ol style="list-style-type: none"> <li>1. Demonstrable sustainability of the sector and dairy products.</li> </ol>                                                                                                                                                                                     | <ol style="list-style-type: none"> <li>1. As a member of the Dairy Sustainability Framework (DSF) and together with international colleague dairy companies and large international dairy customers, the SAI Platform developed a model for making dairy demonstrably sustainable.</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| <b>Suppliers</b>                                                                                                                                                                                                                               | <ol style="list-style-type: none"> <li>1. Criteria for sustainable agricultural raw materials as part of supplier audits.</li> <li>2. Purchase and generation of green electricity.</li> </ol>                                                                                                         | <ol style="list-style-type: none"> <li>1. FrieslandCampina collaborates with its suppliers in developing plans for sustainability in the procurement of agricultural raw materials. This is part of the KPI sustainable procurement, which was further developed this year.</li> <li>2. FrieslandCampina has frequent contact with significant suppliers as part of the Foqus planet programme</li> </ol>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| <b>Nutrition and health experts</b> <ul style="list-style-type: none"> <li>- Dieticians and nutrition experts</li> <li>- Paediatricians</li> <li>- Paediatricians and paediatric nurses</li> <li>- Sports and fitness professionals</li> </ul> | <ol style="list-style-type: none"> <li>1. Role of dairy in nutrition.</li> <li>2. Sports and nutrition.</li> <li>3. Health of children and taste development.</li> <li>4. Sustainable nutrition.</li> <li>5. Strong bones.</li> <li>6. Nutrition for the elderly.</li> <li>7. Malnutrition.</li> </ol> | <ol style="list-style-type: none"> <li>1. The FrieslandCampina Institute is engaged in activities in the Netherlands, Belgium and Great Britain focused on nutrition and sports professionals. The Institute is developing an e-learning that provides scientific and practical knowledge about nutrition during and after exercising or playing a sport, for dieticians, sports dieticians, fitness professionals and personal trainers. This e-learning is supported by Dutch and British professional associations of dieticians and fitness professionals.</li> <li>2. In Asia, the FrieslandCampina Institute is expanding into Indonesia. Furthermore, the FrieslandCampina Institute is present at major regional conferences, such as the annual Asian Congress of Dietetics, the Asia Pacific Congress of Paediatrics and the Conference of the European Federation of the Association for Dieticians.</li> <li>3. The FrieslandCampina Institute is involved in the organisation of various conferences: a conference on sustainable nutrition in the Netherlands. In Asia and in the Philippines, Malaysia and Indonesia, conferences are organised on the development of children as a means of providing nutrition and health professionals with scientific information that they can apply in actual practice.</li> <li>4. An Advisory Council has been created consisting of a group of international multidisciplinary researchers in the area of malnutrition, nutrition, population health and consumer behaviour. They evaluate the FrieslandCampina Institute's way of working and its strategy. The Advisory Council will be meeting annually and will regularly be asked for input during the year.</li> </ol> |

# Appendix 4: Value Creation Model

| Trends & Developments                                                                                                                          | Chances and risks                                                             | Input                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Business model                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Output                                                                      | Value for members, consumers and society                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <br>Growing world populations                               | Product quality and food safety<br><br>Geopolitical and economic developments | <b>Better nutrition</b><br> <br><ul style="list-style-type: none"> <li>66% of our consumer-products meet FrieslandCampina's Global Nutritional Standards</li> <li>80 million euro invested in R&amp;D, which contributes to improvement of dairy-products and sustainable production</li> <li>Stimulation of healthy choices through transparent nutrition labelling and responsible marketing</li> <li>Healthy lifestyle education: supporting nutritional experts, parents, teachers and children with the development of a healthy lifestyle</li> </ul> | <b>nourishing by nature</b><br>Better nutrition for the world's consumers, a good living for our farmers, now and for generations to come                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <b>Value creation for member dairy farmers</b><br>0.59 euro per 100 kg milk | <b>SDG 1 "End poverty in all its forms everywhere"</b> <ul style="list-style-type: none"> <li>FrieslandCampina-program Broadening access to nutrition</li> </ul><br><b>SDG 2 "End hunger, achieve food security and improved nutrition and promote sustainable agriculture"</b> <ul style="list-style-type: none"> <li>Affordable dairy products</li> <li>Milk contains nutrients that are essential for a healthy lifestyle</li> <li>Supporting local dairy farmers with the Dairy Development Programme</li> </ul><br><b>SDG 3 "Ensure healthy lives and promote well-being for all at all ages"</b> <ul style="list-style-type: none"> <li>Food for children and elderly, and medical- and sport-nutrition</li> <li>Wellbeing for farmers</li> </ul><br><b>SDG 5 "Achieve gender equality and empower all women and girls"</b> <ul style="list-style-type: none"> <li>We strive towards diversity in our organisation and management</li> </ul><br><b>SDG 6 "Ensure availability and sustainable management of water and sanitation for all"</b> <ul style="list-style-type: none"> <li>Reducing water-use in our dairy plants</li> </ul><br><b>SDG 7 "Ensure access to affordable, reliable, sustainable and modern energy for all"</b> <ul style="list-style-type: none"> <li>Within the whole supply chain, FrieslandCampina is working actively on energy-reduction and - generation (e.g. solar-energy)</li> </ul><br><b>SDG 8 "Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"</b> <ul style="list-style-type: none"> <li>Rewarding and supporting sustainability</li> </ul><br><b>SDG 12 "Ensure sustainable production and consumption patterns"</b> <ul style="list-style-type: none"> <li>Making the means of production more sustainable through electrification</li> </ul><br><b>SDG 13 "Take urgent action to combat climate change and its impacts"</b> <ul style="list-style-type: none"> <li>Climate neutral growth</li> <li>Ambition to become a leader in the field of CO<sub>2</sub>-efficiency</li> </ul><br><b>SDG 15 "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss"</b> <ul style="list-style-type: none"> <li>Working together with other partners to create a balance between animal and soil</li> <li>Striving towards circularity within the dairy industry</li> <li>Implementing biodiversity-monitor at member dairy farmers</li> </ul><br><b>SDG 17 "Strengthen the means of implementation and revitalize the global partnership for sustainable development"</b> <ul style="list-style-type: none"> <li>Partnerships</li> <li>Knowledge sharing</li> </ul> |
| <br>Climate change and scarce resources                     | Technological developments related to energy-production and consumption       | <b>Member dairy farmers</b><br>18.261                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | <b>A good living for our farmers</b><br>    <br><ul style="list-style-type: none"> <li>Milk price for the member dairy farmers: 37,43 euro per 100 kg of milk</li> <li>11,6 billion euro revenue and 203 million euro profit</li> <li>The Dairy Development Programme has trained 80.216 dairy farmers in, amongst other things, animal-welfare and milk quality</li> </ul>                                                   | <b>Products</b><br><br><b>Brands</b>                                        | <b>Through her nutritional dairy products, FrieslandCampina delivers a contribution to feeding the world population</b><br><br><b>FrieslandCampina strives to pay one of the highest milk-prices in Northwest Europe</b><br><br><b>In a few countries in Asia, Africa and East-Europe, FrieslandCampina offers support to local dairy farmers to improve their business management and milk quality</b><br><br><b>FrieslandCampina focuses on future generations. She has the ambition to grow climate neutrally and to use less scarce resources such as water and fossil fuels</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <br>Enough farmers to produce a sufficient amount of food | Price fluctuation<br><br>Improved sustainability awareness among consumers    | <b>Agri-cultural raw materials</b><br>77% sustainable procurement<br><br><b>Energy-use</b><br>2,8 GJ/ton<br><br><b>Water-use</b><br>3,54 m <sup>3</sup> / ton end product                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <b>Now and for generations to come</b><br>    <br><ul style="list-style-type: none"> <li>811 kton CO<sub>2</sub>-eq. emissions production and transportation</li> <li>11.651 kton CO<sub>2</sub>-eq. emissions member dairy farmers</li> <li>81,2% of the member dairy farmers in the Netherlands applies pasture grazing or partly pasture grazing</li> <li>90% of the total electricity use is green electricity</li> </ul> | <b>Value creation for member dairy farmers</b><br>0.59 euro per 100 kg milk | <b>SDG 13 "Take urgent action to combat climate change and its impacts"</b> <ul style="list-style-type: none"> <li>Climate neutral growth</li> <li>Ambition to become a leader in the field of CO<sub>2</sub>-efficiency</li> </ul><br><b>SDG 15 "Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss"</b> <ul style="list-style-type: none"> <li>Working together with other partners to create a balance between animal and soil</li> <li>Striving towards circularity within the dairy industry</li> <li>Implementing biodiversity-monitor at member dairy farmers</li> </ul><br><b>SDG 17 "Strengthen the means of implementation and revitalize the global partnership for sustainable development"</b> <ul style="list-style-type: none"> <li>Partnerships</li> <li>Knowledge sharing</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|                                                                                                                                                |                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <b>Foundation</b> <ul style="list-style-type: none"> <li>Engaged employees</li> <li>22,8% of managerial positions are filled by women</li> <li>Health &amp; safety: 0.37 accidents per 200.000 hours worked</li> <li>Product quality: Focus-programme</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

## Appendix 5: HR Data

|                                                            |           |                         |                         |      |
|------------------------------------------------------------|-----------|-------------------------|-------------------------|------|
| Senior management diversity                                |           |                         |                         |      |
| Female                                                     |           | 22.7%                   |                         |      |
| Male                                                       |           | 77.3%                   |                         |      |
| Total                                                      |           | 100.0%                  |                         |      |
|                                                            |           |                         |                         |      |
| Type of contract                                           |           |                         |                         |      |
| Temporary                                                  |           | 9.8%                    |                         |      |
| Permanent                                                  |           | 90.2%                   |                         |      |
| Total                                                      |           | 100.0%                  |                         |      |
|                                                            |           |                         |                         |      |
| Temporary versus Permanent subdivided by gender and region |           |                         |                         |      |
| Temporary                                                  | Female    | Asia and Oceania        | 2.7%                    |      |
|                                                            |           | Germany                 | 0.1%                    |      |
|                                                            |           | Remainder of Europe     | 0.5%                    |      |
|                                                            |           | Netherlands             | 0.9%                    |      |
|                                                            | Male      | Africa and Middle East  | 0.1%                    |      |
|                                                            |           | Asia and Oceania        | 3.6%                    |      |
|                                                            |           | Germany                 | 0.2%                    |      |
|                                                            |           | North and South America | 0.0%                    |      |
|                                                            |           | Remainder of Europe     | 0.4%                    |      |
|                                                            |           | Netherlands             | 1.3%                    |      |
|                                                            | Permanent | Female                  | Africa and Middle East  | 0.6% |
|                                                            |           |                         | Asia and Oceania        | 7.5% |
|                                                            |           |                         | Germany                 | 1.7% |
|                                                            |           |                         | North and South America | 0.2% |
| Remainder of Europe                                        |           |                         | 6.2%                    |      |
| Netherlands                                                |           |                         | 7.5%                    |      |
| Male                                                       |           | Africa and Middle East  | 3.6%                    |      |
|                                                            |           | Asia and Oceania        | 24.6%                   |      |
|                                                            |           | Germany                 | 4.6%                    |      |
|                                                            |           | North and South America | 0.5%                    |      |
|                                                            |           | Remainder of Europe     | 10.0%                   |      |
|                                                            |           | Netherlands             | 23.2%                   |      |
| Total                                                      |           | 100.0%                  |                         |      |
|                                                            |           |                         |                         |      |
| Employment                                                 |           |                         |                         |      |
| Part-time                                                  |           | 8.1%                    |                         |      |
| Full-time                                                  |           | 91.9%                   |                         |      |
| Total                                                      |           | 100.0%                  |                         |      |
|                                                            |           |                         |                         |      |
| Part-time versus Permanent subdivided by gender            |           |                         |                         |      |
| Part-time                                                  | Female    | 5.3%                    |                         |      |
|                                                            | Male      | 2.8%                    |                         |      |
| Full-time                                                  | Female    | 22.7%                   |                         |      |
|                                                            | Male      | 69.2%                   |                         |      |
| Total                                                      |           | 100.0%                  |                         |      |
|                                                            |           |                         |                         |      |
| Employees covered by collective labour agreement (CLA)     |           |                         |                         |      |
| Not covered by CLA                                         |           | 33.1%                   |                         |      |
| Covered by CLA                                             |           | 66.9%                   |                         |      |
| Total                                                      |           | 100.0%                  |                         |      |

## Appendix 6: Glossary

### **Accident ratio**

The ratio of the total number of accidents resulting in absence (at least one calendar day of lost time, excluding the day of the accident), substitute work or medical treatment by an emergency service or family doctor per 200,000 hours worked. This concerns work-related accidents. The accident ratio is calculated as follows: total number of accidents / total number of hours worked x 200,000. All FrieslandCampina employees and subcontractors working under FrieslandCampina's supervision for entities in which FrieslandCampina has a controlling interest for at least 12 months fall within the scope of this indicator.

### **Balanced product range**

The subdivision of the product groups is determined on the basis of the product type (for example, milk product, cheese, butter or meat substitute) and its place in daily nutrition (basic food products for daily consumption, self-indulgent products for occasional consumption or products for a specific target group). Each year, the balance in FrieslandCampina's consumer product range is expressed in terms of basic nutritional products for daily consumption and self-indulgent products meant for occasional consumption as a percentage of the total volume of consumer products sold. Also see FrieslandCampina's website [add link].

### **Climate-neutral growth-related greenhouse gas emissions**

The net greenhouse gas emissions of FrieslandCampina linked to the climate-neutral growth target. This concerns the emissions at dairy farms, the transport of milk from farms to production facilities, and transport between production facilities and customers, based on the Greenhouse Gas protocol ([www.ghgprotocol.org/](http://www.ghgprotocol.org/)). The greenhouse gas emissions are administratively compensated by purchasing Guarantees of Origin (see above). The reported greenhouse gas emissions do not include the greenhouse gas emissions from subsidiaries acquired after 2010.

### **Dairy Development Programme (DDP) countries**

FrieslandCampina has more than 140 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farms in Asia, Africa and Eastern Europe to further develop their farms through the Dairy Development Programme. The DDP supports local dairy farmers (particularly small farmers), primarily in Indonesia, Thailand, Vietnam, Malaysia, China, Russia, Romania, Nigeria and Pakistan, to improve the quality of their milk, increase the productivity per cow and gain access to the market.

### **Energy consumption**

A service or a product for which no more energy than necessary is used to put it into actual use. As a process requires less energy to achieve the same goal, it is judged to be more efficient. In this report: the quantity of energy consumed (electricity, natural gas, steam, diesel and oil) in gigajoule (GJ) used to produce one tonne of end product. Acquisitions are included in the reported energy consumption figures after a full calendar year.

### **Good Dairy Farming Practices**

The percentage of dairy farms that at a minimum scores 'good' in terms of the Good Dairy Farming Practices in Dairy Development Programme countries (see below). The Good Dairy Farming Practices are based on the guidelines developed by the Food and Agricultural Organization (FAO). Each year, a questionnaire is used to conduct a survey among a research group of approximately 200 farmers in Indonesia, Vietnam, Thailand and Malaysia to determine the percentage of farmers that scores 'good' in relation to the Good Dairy Farming Practices. This questionnaire differs by country depending on the maturity level of the local dairy sector.

### **Green electricity**

Electricity generated from renewable energy sources, such as wind, solar energy, co-fermentation of biomass, manure fermentation, etc.

### **Guarantees of Origin/Green Certificates**

Guarantees of Origin or Green Certificates are certificates issued for each mWh of electricity from renewable energy sources: wind, solar, co-fermentation of biomass, and manure fermentation. FrieslandCampina buys such certificates to guarantee that the electricity used in FrieslandCampina production facilities is generated from renewable sources.

**Local farmers participating in training in DDP countries**

The number of dairy farmers that participated in a training programme, focused on improving knowledge and skills in the DDP countries: Malaysia, Indonesia, Thailand, Nigeria Pakistan, Romania and Vietnam. The number of dairy farmers trained by FrieslandCampina China and FrieslandCampina Russia are not yet included, because these programmes are not yet fully integrated into the system used to record performance in terms of the Key Performance Indicators.

**Partial pasture grazing**

Allowing a minimum of 25 percent of the cattle on a dairy farm to graze on at least 120 days per calendar year, in a pasture with a sufficient supply of grass, so that the animals are able to continuously exercise their natural grazing behaviour.

**Pasture grazing**

Putting all qualifying dairy cows present on a dairy farm out to pasture during at least 120 days per calendar year for at least 6 hours per day, or a minimum of 720 hours per year, in a pasture with a sufficient supply of grass, so that the animals are able to continuously exercise their natural grazing behaviour.

**Product composition**

The share of FrieslandCampina's product range that complies with the criteria for elements such as protein, calories, sugar, salt and fat, as described in the FrieslandCampina Global Nutritional Standards, expressed as a percentage of the total volume of consumer products sold that complies with the FrieslandCampina Global Nutritional Standards. Also see FrieslandCampina's [website](#).

**RTRS**

The cattle feed (with soya meal) that the Dutch member dairy farmers purchase comes from sustainable sources and is certified according to the Round Table on Responsible Soy (RTRS) or comparable criteria.

**Sustainable agricultural raw materials**

Raw materials with globally recognised sustainability certificates or products for which a plan for sustainable development is created in cooperation with suppliers.



## Assurance Report of the Independent Auditor

**To: the Executive Board and the Supervisory Board of Royal FrieslandCampina N.V.**

### Assurance report for the 2018 sustainability information

#### Our conclusion

Based on the procedures performed, nothing has come to our attention that leads us to believe that the assured sustainability information set out in the 2018 Annual Report of Royal FrieslandCampina N.V., in all material respects, does not provide a reliable and sufficient representation of:

- the policy and business operations relating to corporate social responsibility; and
- the events and performance in this area for the year ending on 31 December 2018, in accordance with the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applicable reporting criteria as explained in the section on Reporting Criteria.

#### Assurance scope

We completed our assurance of the sustainability information contained in the Annual Report for the year ended on 31 December 2018, as recorded in the following sections of the Annual Report (hereinafter: 'the sustainability information'):

- A word from the CEO;
- Key figures;
- About FrieslandCampina;
- The Dairy Sector in 2018;
- Report of the Executive Board;
- Appendices 2. Materiality Matrix and 3. Stakeholder dialogue.

This assessment is focused on obtaining a limited degree of certainty.

The sustainability information comprises a representation of the policy and business operations of Royal FrieslandCampina N.V., Amersfoort (hereinafter: 'FrieslandCampina') in relation to corporate social responsibility and the events and performance in this area during 2018.

#### The basis for our conclusion

We completed our assessment in accordance with Dutch law, which includes the Dutch Standard 3810N 'Assurance Engagements concerning Corporate Social Responsibility Reporting'. For a description of our responsibilities see the 'Our responsibility for assessing sustainability information' section.

In our opinion, the assurance information we obtained is sufficient and appropriate for our conclusion.

#### Independence and quality management

We are independent from FrieslandCampina as required by the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO)' and other rules of independence relevant to the assurance engagement in the Netherlands. In addition, we comply with the VGBA, the Code of Ethics for Professional Accountants.

We apply the Regulations for Quality Management Systems (NVKS). On this basis we have access to a cohesive quality management system, including the established guidelines and procedures for compliance with ethical directives, professional standards and other relevant laws and regulations.



### **Reporting Criteria**

The sustainability information must be read and understood in the context of the reporting criteria. The Executive Board of FrieslandCampina is responsible for selecting and applying these reporting criteria, with due consideration to the applicable reporting laws and regulations.

The reporting criteria used for preparing the sustainability information are the Sustainability Reporting Standards of the Global Reporting Initiative (GRI) and the internally applicable reporting criteria as explained in the section Explanatory Notes and Appendix 8. Annual Report Glossary. The lack of established practices for assessing and measuring non-financial information provides for the possibility of applying various, acceptable measuring techniques. This can affect the comparability between entities and over time.

### **Limitations in the scope of our assessment**

The sustainability information includes future-oriented information, such as expectations relating to ambitions, strategy, plans and estimates, and risk estimates. Inherent in future-oriented information is that the actual outcomes in the future will probably deviate from these expectations due to changes in the underlying assumptions. The deviations resulting from this can be of material significance. We cannot provide any certainty for the assumptions and the feasibility of future-oriented information inherent in the sustainability information.

The references to external sources or websites in the sustainability information do not form part of the sustainability information assessed by us. We therefore do not provide any certainty about this information outside the Annual Report.

### **Responsibility for the sustainability information and the assessment**

#### **Responsibilities of the Executive Board and the Supervisory Board**

The Executive Board of FrieslandCampina is responsible for the preparation of the sustainability information in accordance with the reporting criteria as explained in the 'Reporting Criteria' section, including the identification of the targeted users, the identification of material issues and the applicability of the criteria to the objectives of the targeted users. The choices made by the Executive Board in terms of the scope of the sustainability information and the reporting policy are set out in the Explanatory Notes section and in Appendix 8. Annual Report Glossary. The Executive Board is responsible for determining whether the reporting criteria used are acceptable in this situation.

The Executive Board is also responsible for such internal controls deemed necessary by the Executive Board to enable the preparation of the sustainability information without any material misstatement due to errors or fraud.

The Supervisory Board is responsible for supervising the Company's reporting process in relation to the sustainability information.

#### **Our responsibility for assessing the sustainability information**

Our responsibility is to plan and execute an assurance engagement such that we obtain sufficient and appropriate assurance information on which to base our conclusion.

The activities performed for obtaining a limited degree of certainty are focused on establishing the plausibility of the information and vary in nature and timing from, and are smaller in scope than an audit engagement focused on obtaining a reasonable degree of certainty. The degree of certainty obtained in assurance engagements consequently is significantly lower than the certainty obtained in audit engagements.

Deviations can be due to errors or fraud and are material if it can reasonably be expected that they, individually or collectively, can affect the economic decisions users make on the basis of the sustainability information. The materiality affects the nature, timing and scope of assurance activities and the evaluation of the effect of the recognised deviations on our conclusion.



### Activities performed

We performed this assessment using a professional, but critical approach and where relevant applied professional judgement in accordance with the Dutch 3810N Standard, Ethical Guidelines and Independence Criteria.

Our work consisted of the following, non-exclusive, activities:

- Conducting an environment analysis and acquiring insight into the relevant social themes and issues, and the entity's characteristics.
- Evaluating the suitability of the reporting criteria used, the consistent application of these criteria and the related explanatory notes contained in the sustainability information. This comprises evaluating the outcomes of the dialogue with stakeholders and evaluating the reasonableness of the estimates made by the Executive Board.
- Acquiring insight into the reporting processes that are at the basis of the sustainability information, including familiarising ourselves at a high level with the internal controls, insofar as these are relevant to our assessment.
- Identifying areas in the sustainability information with a higher risk of misleading or imbalanced information or deviations of material significance due to fraud or errors. On the basis of these risk estimates, determining and performing activities focused on establishing the plausibility of the sustainability information. This consisted of the following, non-exclusive, activities:
  - Conducting interviews with group level management (and/or relevant employees) responsible for the strategy/ sustainability strategy and the sustainability policy and performance;
  - Conducting interviews with relevant employees responsible for supplying sustainability information, performing internal controls on the sustainability information and consolidating sustainability data;
  - Determining the nature and scope of the assurance activities to be carried out for the group's divisions and locations. Determining factors in this respect are the nature, scope and/or the risk profile of the group's divisions, locations or activities;
  - Obtaining assurance information that the sustainability information is in line with the underlying records maintained by the entity;
  - Assessing relevant internal and external documentation on the basis of limited partial observations;
  - Analytically evaluating data and trends provided for consolidation at the group level;
- Linking relevant financial information with the financial statements;
- Evaluating the consistency of the sustainability information with the other information in the Annual report outside the scope of our assessment;
- Evaluating the presentation, structure and substance of the sustainability information;
- Considering whether the sustainability information as a whole provides a picture of the objective of the reporting criteria used.

We communicate with Supervisory Board on various matters, including the planned scope and the timing of the assessment and on significant findings arising from our assessment.

15 February 2019

PricewaterhouseCoopers Accountants N.V.

Original signed by J.E.M. Brinkman RA



Every day Royal FrieslandCampina provides millions of consumers throughout the world with dairy products with valuable nutrients from milk. FrieslandCampina produces and sells consumer products such as dairy-based beverages, infant nutrition, condensed milk, cheese and desserts. Cream and butter products for professional customers are supplied to bakeries and catering companies. FrieslandCampina, furthermore produces and sells ingredients and semi-finished products to manufacturers of infant nutrition, the food industry and the pharmaceutical sector.

Annual revenue amounts to 11.6 billion euros. FrieslandCampina's activities are divided into four worldwide business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. FrieslandCampina has branches in 34 countries and employs about 24,000 people. The central office is based in Amersfoort, the Netherlands. The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A. and with over 18,000 member dairy farmers in the Netherlands, Germany and Belgium, one of the world's largest dairy cooperatives.

For more information, please visit our website [www.frieslandcampina.com](http://www.frieslandcampina.com).

**Royal FrieslandCampina N.V.**

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