



FrieslandCampina 
nourishing by nature



Half-Year Report 2017

Royal FrieslandCampina N.V.

Key developments first half-year 2017



Eleven percent increase in revenue

Revenue increased by 10.7 percent to 6.1 billion euros due to higher sales prices (+10.3 percent) and the acquisition of Engro Foods (+2.4 percent). This increase is constrained by unfavourable currency translation effects (-1.0 percent) and negative mix effects (-1.0 percent).

Volume growth in Southeast Asia, with food service activities, higher value segment cheese and pharmaceutical lactose; consumer volumes in Europe in particular were under pressure

Milk supply from member dairy farmers declined by 1 percent to 5,435 million kilos



Stable profit

Operating profit rose by 7.8 percent to 275 million euros primarily due to the strong recovery of the cheese and butter sales prices

The one-off items recognised in operating profit among other things include the 9-million-euro book profit on the sale of the 8.2 percent interest in Synlait Milk Ltd. and the impairment of 20 million euros of the 1.1 percent interest in China Huishan Dairy Holdings Company Ltd.

Profit rose by 1.3 percent to 162 million euros. The higher operating profit is constrained by higher taxes and increased financing costs

The cash flow from operating activities declined to 29 million euros due to higher working capital requirements resulting from a higher stock valuation and higher receivables caused by rising sales prices



Increased milk price

The total compensation paid to member dairy farmers increased by 24.1 percent to 2,109 million euros

Guaranteed price for member dairy farmers increased by 30.4 percent to 35.65 euros

Value creation (pro forma performance premium 1.56 euros and pro forma reservation of member bonds 0.44 euro) decreased by 18.4 percent to 2.00 euros due to the lower reservation of member bonds as a result of the change in the 2017-2019 profit appropriation

Pro forma milk price increased by 26.9 percent to 38.37 euros

Pro forma performance price increased by 25.1 percent to 40.74 euros

Interim pay-out (75 percent of the pro forma performance premium) to member dairy farmers in September 2017 will be 1.17 euros and is the same as it was in the first half-year 2016

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



Strategy route2020

Further growth in Southeast Asia, primarily with Frisian Flag condensed milk in Indonesia and Friso infant nutrition and Dutch Lady dairy products in Vietnam

Declining demand for infant nutrition in China; Friso Prestige realises growth, as a result of which margin stays up to par

Strong recovery of cheese and butter revenue and result, continued volume growth of Debic products (food service dairy products) and Campina quark and yoghurt; fresh daily and long-life dairy volume trend in West Europe under pressure, continued negative result in Germany

51 percent controlling interest in Engro Foods in Pakistan fully consolidated; integration on schedule

Investments: 226 million euros primarily in replacement, quality and efficiency

Summit Programme (standardisation of planning and information systems and processes) successfully implemented at a number of locations in the Netherlands, Thailand, Belgium and the United Kingdom

Start of Fast Forward Programme (simplification of organisation structure designed to anticipate market developments more decisively)

Key figures

in millions of euros, unless stated otherwise

	2017 first half-year	2016 first half-year	Δ%	2016 year
Results				
Revenue	6,072	5,486 ¹	10.7	11,001
Revenue before currency translation effects	6,125	5,486	11.6	
Operating profit	275	255	7.8	563
Operating profit before currency translation effects	288	255	12.9	
Profit	162	160	1.3	362
Profit before currency translation effects	166	160	3.8	
Operating profit as a % of revenue	4.5	4.6		5.1
Balance sheet				
Balance sheet total	9,363	8,253		9,318 ¹
Equity attributable to the shareholder and other providers of equity	3,170	2,878		3,169
Equity as a % of the balance sheet total	33.9%	34.9%		34.0%
Buffer capital as a % of the balance sheet total ²	14.0%	13.7%		14.0%
Net debt ³	1,612	1,322		1,225
Cash flow				
Net cash flow from operating activities	29	165		850
Net cash flow from investing activities	-242	-262		-955
Investments				
	226	215	5.1	518
Value creation for member dairy farmers				
in euros per 100 kilos of milk (excluding VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)				
Total compensation paid to members in millions of euros	2,109	1,699	24.1	3,544
Guaranteed price				
Pro forma performance premium ⁵	35.65 ⁴	27.34	30.4	28.38
Meadow milk premium ⁶	1.56	1.56		2.19
Meadow milk premium ⁶	0.60	0.29		0.29
Special supplements ⁷	0.12	0.16		0.15
Pro forma cash price ⁵	37.93	29.35	29.2	31.01
Pro forma reservation of member bonds ⁵	0.44	0.89		1.25
Pro forma milk price ⁵	38.37	30.24	26.9	32.26
Additional payments	0.09 ⁸	0.29		0.22
Interest on member bonds	0.39	0.39		0.41
Pro forma retained earnings ⁵	1.89	1.65	14.5	2.12
Pro forma performance price ⁵	40.74	32.57	25.1	35.01
Interim pay-out ⁹				
75% of the pro forma performance premium	1.17	1.17		
Milk supplied by member dairy farmers in millions of kg				
	5,435	5,488	-1.0	10,774

¹ The presentation of the 2016 comparative figures has been adjusted. See page 24 of the Accounting Policies used in the preparation of the Consolidated Half-Year Report for an explanation of the adjustment of the comparative figures.

² Buffer capital is the equity attributable to the shareholder.

³ The net debt concerns current and non-current interest-bearing borrowings, commitments to Zuivelcoöperatie FrieslandCampina U.A. less the cash and cash equivalents at the Company's free disposal.

⁴ Concerns balance of guaranteed price of 35.71 euros and a settlement of 0.06 euro per 100 kilos of milk for an excessively high estimate over the first half-year 2017.

⁵ The performance premium, the reservation of member bonds and the retained earnings are determined on the basis of the full-year profit figures.

⁶ Effective from 2017, the meadow milk premium was increased from 1.00 euro to 1.50 euros per 100 kilos of milk. Of this, an amount of 1.00 euro per 100 kilos of meadow milk is paid from the Company's operating profit. On average on all FrieslandCampina members milk, this amounts to 0.60 euro per 100 kilos of milk. Furthermore, another 0.50 euro per 100 kg 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.

⁷ Special supplements concern the total amount of pay-outs per 100 kilos of milk of Landliebe milk of 1.00 euro per 100 kilos of milk, and the difference between the guaranteed price of organic milk (48.44 euros per 100 kilos of milk) and the guaranteed price (35.65 euros per 100 kilos of milk). On average on all FrieslandCampina members milk this amounts to 0.12 euro per 100 kilos of milk.

⁸ In 2017, 4.8 million euros were paid out (0.09 euro per 100 kilos of milk) in the context of the 10-cent measure.

⁹ The 2017 interim pay-out per 100 kilos of milk will be paid out to member dairy farmers on 1 September 2017.

First half-year 2017:
milk price for member dairy farmers up by 27 percent

Stable profit with eleven percent increase in revenue

The revenue of Royal FrieslandCampina N.V. increased by 11 percent to 6,072 million euros over the first half-year 2017. Profit increased by 1 percent to 162 million euros. Revenue increased due to an increase in sales prices and the acquisition of Engro Foods in Pakistan. The pro forma milk price for member dairy farmers increased by 27 percent to 38.37 euros per 100 kilos of milk. The interim pay-out for member dairy farmers amounts to 1.17 euros per 100 kilos of milk.

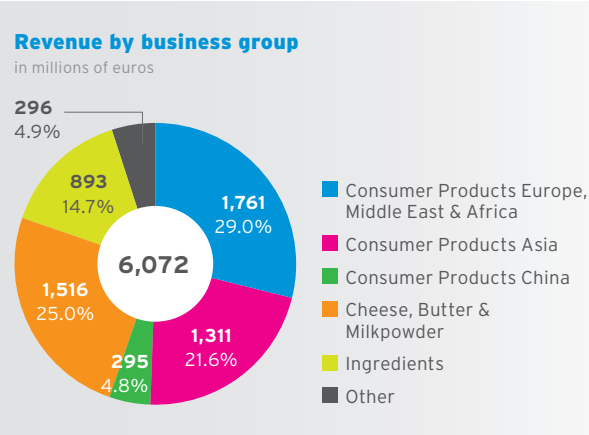
Roelof Joosten, CEO of Royal FrieslandCampina N.V.: 'The milk price for member dairy farmers recovered this year after a number of disappointing years. The higher sales prices for primarily butter and cheese lie at the root of this recovery. In West Europe we were successful in passing on the higher guaranteed price in the sales prices. This is reflected in the increased revenue. The total compensation paid to member dairy farmers increased by 24 percent in comparison to the first half year of 2016. High growth levels were realised in Indonesia and Vietnam, and with cheese and butter. In Germany, the Philippines and Nigeria, result trends are not as positive due to local market conditions and negative currency translation effects, the latter particularly in Nigeria.'

Increased revenue
The increase in revenue to 6,072 million euros is due to the increase in higher sales prices of 10.3 percent, and the acquisition of Engro Foods in Pakistan at the end of 2016 of 2.4 percent. On balance, currency translation effects had a negative effect of 53 million euros (-1.0 percent) on revenue. The volume of products with higher added value declined by 1.6 percent (exclusive of the acquisition of Engro Foods) and the volume of basic products rose by 1.2 percent. On balance, this had a negative mix effect of -1.0 percent on revenue. Butter products displayed the highest price increases due to the increased global demand for butter and cream products with a declining supply.

Higher operating profit
The operating profit increased by 7.8 percent to 275 million euros over the first half of 2017. Currency translation effects had a negative effect of 13 million euros on the operating profit.

The gross margin increased by 8.2 percent to 1,015 million euros due to the fact that the higher sales prices compensated for the increased costs. The cost of goods sold increased by 11.2 percent to 5,057 million euros. This is mainly due to the higher guaranteed price for raw milk and the increased prices for other raw materials.

The total compensation paid to member dairy farmers for their milk increased by 24.1 percent to 2,109 million euros (2016: 1,699 million euros), at a 1-percent-lower milk production level (5,435 million kilos).



FrieslandCampina invested 272 million euros in advertising and promotions. This represents an increase of 2.3 percent and is due to the acquisition of Engro Foods. Sales and general administrative costs increased by 10.2 percent to 444 million euros. This increase is due to the acquisition of Engro Foods and the increase in selling costs in Europe, Africa and China. The one-off items recognised in the operating profit among other things include the 9-million-euro book profit on the sale of the 8.2 percent interest in Synlait Milk Ltd. and the impairment of 20 million euros of the 1.1 percent interest in China Huishan Dairy Holdings Company Ltd.

FrieslandCampina holds a 1.1-percent interest in China Huishan Dairy Holdings Company Ltd. On 24 March 2017 the Hong Kong Stock Exchange suspended trading of the shares following a decline of 85 percent in the share price. FrieslandCampina's interest was valued at 53 million euros on 31 December 2016. On the basis of the latest share price available on 24 March 2017, the value of this interest declined to 7 million euros. The original investment in the shares in China Huishan Dairy Holdings Company Ltd. amounted to 27 million euros in 2015. Engro Foods in Pakistan, in which a controlling interest was acquired in December 2016, experienced a challenging half year. The sales volume declined as a result of a local lobby against pre-packaged milk and the margin was under pressure due to tax regulations.

Stable profit

Profit over the first half-year 2017 increased by 1.3 percent to 162 million euros. The increase in profit is due to the strong recovery of the butter and cheese sales prices. Of this amount, 128 million euros is at the disposal of the shareholder and the provider of the cooperative loan (Zuivelcoöperatie FrieslandCampina U.A.) and the holders of member bonds (first half-year 2016: 117 million euros).

The result from joint ventures and associates amounted to 8 million euros.

The tax expense amounted to 91 million euros (first half-year 2016: 79 million euros). The higher effective tax rate in the first half-year 2017 of 35.8 percent compared to 33.0 percent in 2016 is in part due to the adjustment of the estimates of previous years.



Vifit Sport: sports nutrition for sports enthusiasts in the Netherlands

In May a protein-rich sports nutrition line was introduced on the Dutch market under the label Vifit Sport. With a range of beverages, shakes and bars, Vifit Sport anticipates the need of sports enthusiasts for protein-rich sports nutrition that contributes to the recovery and development of muscles. Other European countries will follow after its introduction in the Netherlands. On 17 July 2017, Vifit Sport and the LottoNL-Jumbo Cycling Team announced a partnership agreement for the next three years. The name of the Vifit Sport protein-rich sports nutrition line will be displayed on the jerseys.

Value creation for members

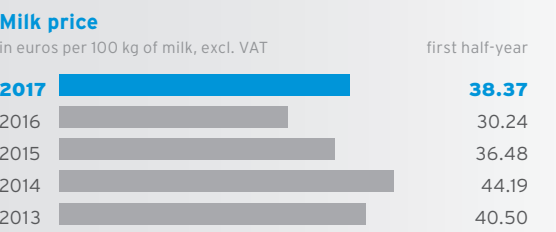
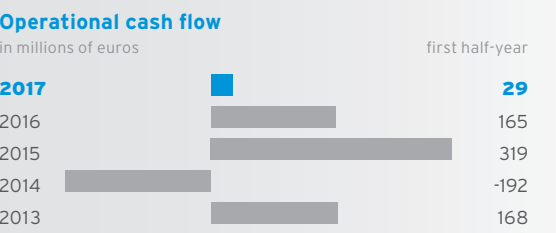
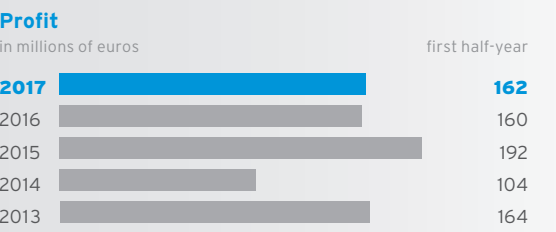
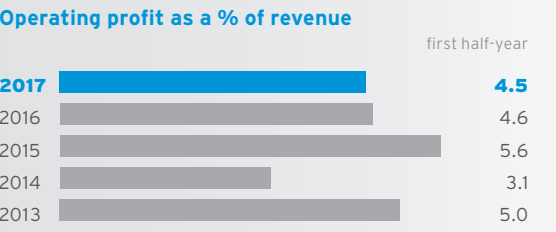
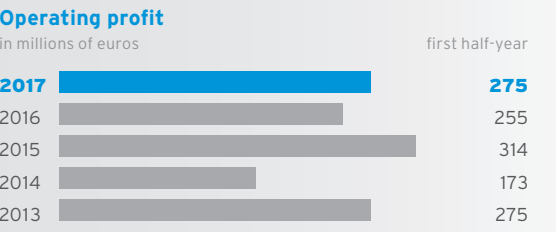
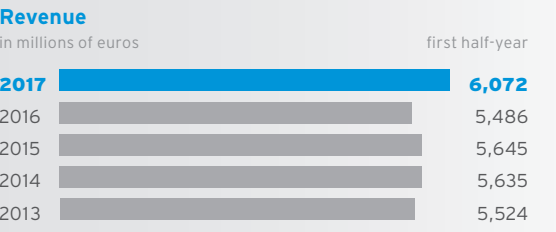
The pro forma milk price for the member dairy farmers over the first half-year 2017 increased by 26.9 percent to 38.37 euros excluding VAT per 100 kilos of milk (first half-year 2016: 30.24 euros).

The guaranteed price over the first half-year 2017 increased by 30.4 percent to 35.65 euros per 100 kilos of milk (first half-year 2016: 27.34 euros). The increase in the guaranteed price is the result of the higher milk prices of the reference companies.

The pro forma value creation (performance premium and reservation of fixed member bonds) amounted to 2.00 euros per 100 kilos of milk (first half-year 2016: 2.45 euros). The pro forma performance premium amounted to 1.56 euros per 100 kilos of milk (first half-year 2016: 1.56 euros). The pro forma reservation of fixed member bonds amounted to 0.44 euro per 100 kilos of milk (first half-year 2016: 0.89 euro).

The decrease in value creation is due to the adjustments in the profit appropriation. Of the profit for the years 2017-2019 (based on the guaranteed price, after deducting the interest on member bonds and the profit attributable to non-controlling interests), 55 percent will be added to FrieslandCampina's equity. 35 percent of the profit can be paid out to the member dairy farmers as a performance premium and 10 percent will be paid out to the member dairy farmers in the form of member bonds. For the years 2014-2016, this was 45, 35 and 20 percent, respectively.

Effective from 1 January 2017, the meadow milk premium was increased from 0.50 euro to 1.50 euros gross per 100 kilos of milk. Furthermore, FrieslandCampina rewards partial pasture grazing with 0.46 euro per 100 kilos of milk. The meadow milk premium is financed by the Company in the amount of 1.00 euro per 100 kilos of milk. The remaining 0.50 euro per 100 kilos of milk is paid on the basis of the redistribution of the milk price among member dairy farmers by withholding 0.35 euro per 100 kilos of milk through means of a cooperative scheme. Distributed across all forms of milk, the meadow milk premium amounts to 0.60 euro per 100 kilos of milk (first half-year 2016: 0.29 euro).



The interest on member bonds was 0.39 euro per 100 kilos of milk (the same as for the first half-year 2016). The total interest allocated to member bonds decreased from 21.3 million euros to 21.1 million euros due to the decrease in the interest rate. The interest rate over the period from 1 January to 31 May 2017 amounted to 3.031 percent. The interest rate over the period 1 June to 30 November 2017 amounts to 2.996 percent (the 6-month Euribor interest rate of -0.254 percent in early June 2017 plus the 3.25 percent mark-up).

The pro forma retained earnings amounted to 1.89 euros per 100 kilos of milk (first half-year 2016: 1.65 euros).

The FrieslandCampina pro forma performance price over the first half-year 2017 amounted to 40.74 euros excluding VAT per 100 kilos of milk (first half-year 2016: 32.28 euros), a 25.1-percent increase compared to the first half-year 2016. The FrieslandCampina performance price consists of the guaranteed price, the performance premium, the meadow milk premium, the special supplements premium, the reservation of member bonds, the interest on member bonds and the retained earnings.

The organic milk price over the first half-year 2017 amounted to 51.44 euros excluding VAT per 100 kilos of milk (first half-year 2016: 51.12 euros). The guaranteed price for organic milk over the first half-year 2017 amounted to 48.44 euros excluding VAT per 100 kilos of milk (first half-year 2016: 48.17 euros).



Milk with Added Value

The Board and the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. have formulated a framework for the development of the Cooperative over the next few years: the 2025 Cooperative Vision Milk with Added Value. The Cooperative and the Company aim to create greater value for members, now and in the future, through means of a differentiating and progressive supply chain approach that is market-oriented, anticipates societal developments and actively contributes to the realisation of climate and environmental objectives.

Interim pay-out of 1.17 euros per 100 kilos of milk

On 1 September 2017, an interim pay-out amounting to 1.17 euros per 100 kilos of milk (excluding VAT) will be paid out to the member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. This is equal to the pay-out for the first half-year 2016. This is 75 percent of the pro forma performance premium over the first half year. The final settlement will be effected in April 2018, based on FrieslandCampina's results for the financial year and the quantity of milk supplied by the dairy farmers in 2017.

Decrease in operating cash flow

The cash flow from operating activities decreased to 29 million euros (first half-year 2016: 165 million euros). This is mainly due to the higher working capital requirements and the higher guaranteed price. The stock valuation rose as a result and the outstanding receivables increased due to the price increases. Over the first half-year 2017, the outbound cash flow for investment activities amounted to 242 million euros (first half-year 2016: 262 million euros).

The cash flow from financing activities amounted to 122 million euros (first half-year 2016: -362 million euros), in particular due to the higher utilisation of the credit facility. The net cash flow amounted to -91 million euros (first half-year 2016: -459 million euros). The balance of cash and cash equivalents amounts to 236 million euros.

A dairy cooperative that members are rightly proud of and whose milk and dairy products are appreciated regionally as well as globally. The motivation for reformulating the Cooperative's ambitions include the rapid market and societal changes, and the rapid growth of the dairy farming sector in the Netherlands following the elimination of the milk quota system in 2015. The vision's key themes include 'Value for Us', 'Care for Animal and Nature' and 'Being of Value in and for Society'.

Financial position

The net debt amounted to 1,612 million euros as at 30 June 2017. This represents a 387-million-euro increase compared to 31 December 2016.

The buffer capital rose slightly and amounted to 1,314 million euros. As a percentage of the balance sheet total, the buffer capital remained stable at 14.0 percent.

The equity attributable to the shareholder and other providers of equity is 3,170 million euros (year-end 2016: 3,169 million euros) due to the addition of the retained earnings and the increase in the number of member bonds offset by negative currency differences and the interest paid to the holders of member bonds.

Solvency virtually remained the same at 33.9 percent (year-end 2016: 34.0 percent).

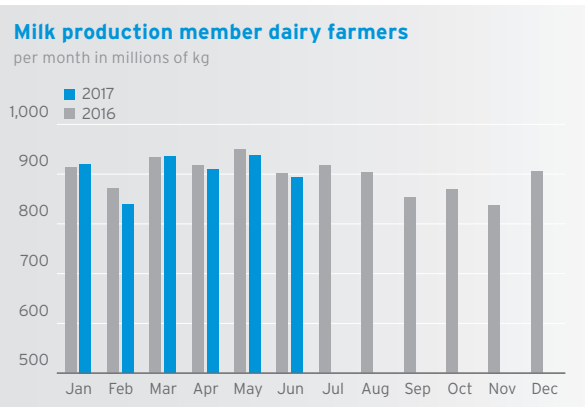
As at 30 June 2017, the total equity, including non-controlling interests, amounted to 3,560 million euros (year-end 2016: 3,615 million euros). On balance, total equity decreased due to the decrease in non-controlling interests because of dividend payments and due to negative currency differences.

Financing

FrieslandCampina makes use of loans from several financing groups (member dairy farmers, banks, investors and development banks). The main component of the bank loans consists of a 1.5-billion-euro committed credit facility provided by a bank syndicate with a term running up to April 2021. At the end of June 2017, 250 million euros were drawn down from this facility. The main component of the outstanding long-term loans consists of 300 million euros in 'Green Bonds' (*Green Schuldschein*) and USD 633 million in loans from American institutional investors. The liabilities in US dollars are converted into euro liabilities on the basis of fixed interest rate cross-currency swaps. In April 2017, USD 63 million and 25 million euros were repaid in regular instalments to institutional investors. In November 2016 a loan was negotiated with International Finance Corporation (IFC) for a maximum of USD 100 million as part of the acquisition of Engro Foods in Pakistan. The USD 100 million loan was drawn down in January 2017. This US dollar liability was also converted into an euro liability with a fixed interest rate through means of cross-currency swap.

Milk supply

The milk supplied by member dairy farmers decreased by 53 million kilos over the first half-year 2017 (1.0 percent) to 5,435 million kilos of milk.



During the initial months of 2017, two temporary milk volume control measures were in effect: the so-called 10-cent measure and the temporary FrieslandCampina standstill measure. Between 1 October 2016 and 1 April 2017, FrieslandCampina compensated member dairy farmers 0.10 euro per kilo of less milk supplied. In the first three months of 2017, 48 million kilos less milk were supplied in comparison to the reference volume and 4.8 million euros were paid to the participating member dairy farmers.



New Campina logo and new packaging for Campina products

The new Campina logo was launched in August. All Campina packaging will be renewed and will have the new logo. The new logo and the new packaging design are intended to improve the profile of Campina products on retail shelves.

The temporary standstill measure was in effect between 9 January and 1 March 2017. This measure was to contribute to keeping the milk supply in balance with available processing capacity. FrieslandCampina had taken the coming into effect of the system of phosphate rights on 1 January 2017, which was deferred to 1 January 2018, into account in its capacity planning for 2017. During the period in which the temporary standstill measure was in effect, 53 million kilos less milk was supplied in comparison to the reference volume. 6.9 million euros was paid to member dairy farmers on the basis of this temporary cooperative scheme. This payment was financed from withholding 90 percent of the monthly guaranteed price over the volume of milk supplied over and above the reference volume. In part due to the temporary standstill measure, the milk supply in January and February 2017 remained stable in comparison to the supply during the same period in 2016.

On 1 March 2017 the Ministerial Regulation concerning the 2017 Phosphate Reduction Plan took effect in the Netherlands. The regulation terminates on 31 December 2017. Phosphate production has been reduced and milk production has stabilised as a result of this regulation.

General market trends in the first half of 2017

The worldwide demand for dairy products decreased in the first half-year of 2017. Limited purchasing power in many oil-exporting countries and stocks are the key reasons. Global milk production increased by 1 percent. However, milk production in the key export regions and countries (European Union, United States, New Zealand, Australia and Argentina) decreased by 0.6 percent. Milk production in the European Union declined by 1.2 percent. Due to the phosphate reduction measures, milk production in the Netherlands remained at virtually the same level as in the first half year of 2016.

In spite of the relative stability in supply and demand, dairy product price trends were fairly volatile on the world market as well as in the EU. A number of quotations were under pressure in the first quarter, while quotations rose in the second quarter. Butter quotations were the most striking. Due to the lagging milk production,

declining stocks and the globally increasing demand, butter prices rose to an unprecedented level of 6.10 euros per kilo on 1 July 2017. In the first quarter, the Hanover quotation for foil cheese dropped to 3.08 euros per kilo due to the lagging demand. The price subsequently recovered to 3.25 euros per kilo.

The prices of whole and skimmed milk powder fell in the first quarter, and skimmed milk powder, at 1,700 euros per tonne, remained at roughly the intervention level of 1,698 euros per tonne. Quotations recovered somewhat in the second quarter. The prices of whole milk powder showed a similar fluctuation. A total of 7,937 tonnes of skimmed milk powder was (temporarily) removed from the market in the first half-year pursuant to the European Commission's intervention. At the end of June, the total intervention stock of skimmed milk powder was 353,299 tonnes. Whole milk powder prices also experienced a downward fluctuation.

Dutch quotes in euro per ton product	1 January 2017	1 April 2017	%	1 July 2017	%
Cheese (Hannover)	3,300	3,080	-6.7	3,250	5.5
Whole milk powder	3,200	2,620	-18.1	2,970	13.4
Skimmed milk powder	2,150	1,700	-20.9	1,890	11.2
Whey powder	830	850	2.4	880	3.5
Butter	4,360	4,380	0.5	6,100	39.3

Reinforcing the organisation

- On 5 January 2017 FrieslandCampina acquired full control over the activities of the A-ware cheese warehouse in Workum by acquiring A-ware Workum B.V. for 6 million euros. The cheese warehouse activities at the FrieslandCampina Cheese site in Workum consist of storing and ripening cheese.
- On 3 March 2017 FrieslandCampina sold its 8.2-percent interest in Synlait Milk Ltd. in New Zealand for 32 million euros. The shares in this company were acquired for 23 million euros in 2013 and 2014.
- The World Class Operations Management (WCOM) Reloaded Programme was further rolled out to production facilities in Russia, Malaysia and Indonesia. The programme focuses on efficiency improvements and cost reductions. The main part of the cost reductions is realised by improving the utilisation rate of the production lines and by reducing material and energy consumption.
- During the first half-year 2017, the Summit Programme (standardisation of planning and information systems and processes) was successfully implemented at a number of locations in the Netherlands, Thailand, Belgium and the United Kingdom. The objective is to achieve more effective (logistics) planning and decision-making, as well as to work more efficiently by making better use of economies of scale. Overall, about 70 percent of all employees ultimately to be involved are now working with the new platform. The programme is currently being implemented at FrieslandCampina Cheese and FrieslandCampina Vietnam.
- The Finance for the Future Programme focuses on the creation of a more efficient and reinforced financial organisation. Part of the programme involves the relocation of back-office activities to a Financial Shared Service Centre in the region. In 2017 the Financial Shared Service Centre opened a branch in Budapest (Hungary) for Southeast Europe. Other centres have been established in Wollega, the Netherlands, and in Kuala Lumpur, Malaysia.

Safety

In 2017 the measurement and management of the 'number of accidents resulting in sick leave' was expanded to include the 'number of accidents resulting in work adjustment' and the 'number of accidents requiring medical treatment' (together the 'total number of accidents'). Over the first half-year 2017, the 'number of accidents resulting in sick leave' slightly increased in comparison to 2016. However, the total number of accidents decreased by 27.3 percent to 96 accidents (first half-year 2016: 132).

Over the first half-year 2017, the total number of accidents per 200,000 hours worked decreased to 0.68 (first half-year 2016: 0.92). As such, FrieslandCampina remained within the 0.75 target for all of 2017.

- The main causes of accidents were related to:
- Falling, tripping, slipping (falling from steps, slippery floors, misstepping)
 - Contact with sharp objects
 - Machine safety (moving parts, jamming)



Fire in Lagos, Nigeria, production facility

The production facility of FrieslandCampina WAMCO in Lagos, Nigeria, was hit by a fire at the beginning of January. The fire caused serious damage to the evaporated milk production hall. Production partially resumed in the first quarter of 2017. Plans call for production to be back at full capacity in the fourth quarter. FrieslandCampina in Leeuwarden, the Netherlands, temporarily produced more evaporated milk for Nigeria. However, it was unable to replace the entire volume.



Friso Nature & Science campaign in Vietnam

In April 2017 Friso launched the renovated Nature & Science Campaign. Through means of this campaign, the brand shares a vision for the integration of nature and science into the from-grass-to-glass supply chain.

Sustainability

The activities relating to sustainability are directly linked to the *purpose statement: nourishing by nature* - better nutrition for the world, a good living for farmers, now and for the generations to come. These activities effectively match the Sustainable Development Goals of the United Nations.

Better Nutrition for the world

Since 2016 FrieslandCampina has been using an updated set of scientific nutritional criteria for its consumer products, the FrieslandCampina Global Nutritional Standards. FrieslandCampina aims to keep a balance between the number of nutritional products and self-indulgent products. Vifit Sport was introduced in the area of sports nutrition. In addition, FrieslandCampina Domo has introduced an organic GOS syrup, as an organic ingredient for infant nutrition. In April 2017 Friso launched a renewed Nature & Science Campaign.

Pasture Grazing

In 2017, 314 member dairy farmers used pasture grazing for their dairy cattle for the first time. This is evident from the information registered for the 2017 pasture grazing season. In 2016, 78.2 percent of member dairy farmers let their cows graze in a pasture. In the first half of 2017, the volume of meadow cheese sold once again increased.

Dairy Development Programme

In 2017, the Big Push Programme was initiated in Pakistan in the context of the Dairy Development Programme. This programme of the Engro Foods subsidiary and the Punjab Skills Development Fund focuses on improving milk quality, productivity and the livelihood of 9,000 small dairy farmers in the south of the Province Punjab. A milk collection centre was opened in Saki in Nigeria on 8 June. 500 dairy farmers drop off their milk here every day, which is then transported to Lagos. In Thailand, Malaysia and Indonesia, 170 dairy farmers were trained by FrieslandCampina member dairy farmers as part of the Farmer2Farmer Programme.

Climate-neutral growth

The energy efficiency in the production of dairy products decreased slightly to 2.8 GJ/tonne in comparison to the first half-year 2016 (first half-year 2016: 2.7 GJ/tonne of finished product) due to the lower installation utilisation rate resulting from the declining milk supply.

Water efficiency amounted to 3.3 m³/tonne of finished product (first half-year 2016: 4.4 m³/tonne of finished product).

This improvement is primarily due to improved cleaning techniques and improved production. FrieslandCampina focuses its water reduction programmes on production facilities in Asia, Africa and the Middle East. At the production facility in Lagos, Nigeria, a programme has been initiated to improve the available volume and quality of water through means of various techniques, such as re-infiltration.

Since 7 February 2017 FrieslandCampina has been using biogas at its production facility in Borculo, the Netherlands, for the generation of steam for the production of milk powder and ingredients for infant nutrition. A partnership agreement has been signed for this purpose with Groot Zevert Vergisting (GZV) in Beltrum (Netherlands). FrieslandCampina will be purchasing approximately 8 million m³ of biogas from GZV annually. This will result in an annual CO₂ reduction of approximately 8,000 tonnes.

Biodiversity

FrieslandCampina, the World Wildlife Fund (WWF) and the Rabobank have developed a prototype that makes it possible to measure the impact of dairy farms on biodiversity. FrieslandCampina will, together with member dairy farmers, investigate how this methodology can be used to measure and improve the development of biodiversity.

Risks

The 2016 Annual Report sets out the uncertainties and risks that may have a material adverse effect on both the result and equity of FrieslandCampina. It also sets out how the company controls these risks. This description of uncertainties, risks and measures forms part of this half-year report by reference.

The key uncertainties for the second half-year 2017 concern the price development of basic dairy products on the world market and geopolitical developments. Furthermore, economic developments in the various regions, currency fluctuations and the increasing regulations and requirements issued by governments continue to be a risk. Lower economic growth in China and Southeast Asia furthermore resulted in a decline in the demand for infant nutrition in China and an increase in price competition on the part of local producers. The consumption of dairy was under further pressure due to the economic situation in oil-exporting countries, such as Nigeria. In terms of exchange rates, FrieslandCampina's results are mostly dependent on the American dollar, the Chinese yuan, the Hong Kong dollar and the Nigerian naira. Foreign currency positions are hedged by the company. However, the opportunities to do this in Nigeria are limited. In the first half-year 2017, the results were negatively impacted by, in particular, the naira, the Indonesian rupiah and the Philippine peso.

Subsequent events

Organisational restructuring

On 16 August FrieslandCampina announced that it will simplify the organisation effective 1 January 2018 by creating four new global business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Basic Dairy. As a result of this, the management of the Company will also be adjusted effective 1 January 2018. The number of members of the Executive Board will be reduced to two persons: the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). An executive leadership team will be created composed of the Executive Board, supplemented by the presidents of the business groups, FrieslandCampina China and a number of corporate functions.

Disposal of FrieslandCampina Riedel B.V.

On 6 August 2017, agreement was reached with the Dutch investment company Standard Investment concerning the disposal of FrieslandCampina Riedel B.V. This transaction is expected to be finalised in the last quarter of 2017. Riedel realised a revenue of approximately 125 million euros in 2016 with approximately 200 employees. Well-known brands include Appelsientje, CoolBest, DubbelFrisss, Taksi and Extran. In February 2017 FrieslandCampina announced that it would be looking for a buyer for Riedel because FrieslandCampina wants to focus on its dairy portfolio.

Introduction of Bola Cremoso cheese in Spain

In Spain, FrieslandCampina introduced Bola Cremoso, a new ball-shaped cheese, as part of its existing brands Sombrero de Copa, Royal Hollandia, Castillo de Holanda and Victoria. The cheese comes in a yellow jacket, is creamier and milder in taste, and contains less salt than the red ball-shaped cheese familiar to Spanish consumers.



Outlook

Over the second half of 2017, the worldwide supply of milk is expected to increase slightly in comparison to the second half-year 2016. The demand for dairy products is also expected to increase slightly worldwide over the second half-year of 2017 due to the increased demand for dairy raw materials in China. It is also expected that dairy product prices will continue to rise driven by the higher butter and cheese quotations due to the persisting strong demand for fat-related products. Further revenue growth is consequently expected. Increased price competition, particularly on the infant nutrition market in China, could put margins under pressure.

The developments concerning China Huishan Dairy Holdings Company Ltd. are closely monitored. The position remains that the activities of the joint venture Friesland Huishan Dairy will be continued.

FrieslandCampina does not make any specific pronouncements concerning the result for the full year 2017.



Landliebe campaign in Hungary
Landliebe conducted a campaign in Budapest, Hungary, designed to generate greater brand awareness and to convey key core values to the consumer. Bus stops were decorated and the Landliebe brand was promoted using various social media, and a small piece of 'nature' was brought into the centre of the capital. Passengers had the opportunity of taking a selfie at the bus stop, giving them a chance of winning a tray of Landliebe yoghurt.

Executive responsibility

In accordance with Section 5:25d 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, this half-year report provides a true and fair view of the assets, liabilities and financial position as at 30 June 2017, and of the result over the first six months of 2017 of Royal FrieslandCampina N.V. and the companies jointly consolidated, and that the half-year report provides a true and fair view of the key events that happened during the first six months of 2017 and their impact on the half-year financial statements and the key risks and uncertainties for the following six months of 2017.

Members of the Supervisory Board

Wout Dekker was appointed to the Supervisory Board of Royal FrieslandCampina N.V. effective from 1 July 2017. He fills the vacancy created due to the departure of Peter Elverding from the Supervisory Board due to health reasons, effective 12 April 2017.

On 14 June 2017 Erwin Wunnekink was reappointed by the Members' Council as a member of the Board of Zuivelcoöperatie FrieslandCampina U.A. and as such was also reappointed as a member of the Supervisory Board of Royal FrieslandCampina N.V. Erwin Wunnekink has been a member of the Board and the Supervisory Board since December 2009, and since December 2016 has been Vice Chairman of the Board and the Supervisory Board.

In its meeting of 14 June 2017, the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. appointed Cor Hoogeveen as a member of the Board. His appointment will go into effect on 19 December 2017. On that same date he will also become a member of the Supervisory Board of Royal FrieslandCampina N.V.

Members of the Executive Board

Roel van Neerbos was appointed as a member of the Executive Board effective 1 January 2017. As Chief Operating Officer on the Executive Board, he is responsible for the Consumer Products Europe, Middle East & Africa business group.

Tine Snels will step down from her position as member of the Executive Board of Royal FrieslandCampina N.V. effective 31 August 2017, as she has accepted an executive management position elsewhere.

As a consequence of the planned changes to the management of the Company, Piet Hilarides and Bas van den Berg, by mutual agreement with the Company, have decided to leave FrieslandCampina effective 31 December 2017.

The Supervisory Board is grateful to Tine Snels, Piet Hilarides and Bas van den Berg for their dedication, effort and the excellent contribution they have made to the development of FrieslandCampina.

Executive Board

- Roelof (R.A.) Joosten**
Chief Executive Officer
- Hein (H.M.A.) Schumacher**
Chief Financial Officer
- Bas (S.G.) van den Berg**
Chief Operating Officer
- Piet (P.J.) Hilarides**
Chief Operating Officer
- Roel (R.F.) van Neerbos**
Chief Operating Officer
- Tine (M.A.K.) Snels**
Chief Operating Officer

Amersfoort (Netherlands), 25 August 2017



Debic desserts innovation
FrieslandCampina Foodservice has developed a new line of Debic desserts that anticipates the need of professional chefs for new desserts requiring a limited number of preparatory steps.

Consumer Products Europe, Middle East & Africa

Revenue over the first half-year 2017 remained exactly the same at 1,761 million euros. Adjusted for the disposals of Wiesehoff and Ecomel in 2016, revenue increased by 2 percent due to higher sales prices and despite negative currency translations effects (71 million euros). Volumes decreased due to declining dairy consumption in West Europe, due to price increases, the fire at the production facility in Nigeria and the decision not to extend poorly performing private label contracts. In spite of the implementation of price increases, the operating profit decreased due to negative currency translation effects, primarily in Nigeria, and the delayed effect of the charge-on of the rising guaranteed price due to contract positions with clients.

- Revenue and volume in the Netherlands and Belgium under pressure due to declining consumption and pressure on the market share of a number of products
- Good growth in revenue and volume of food service products
- Revenue and result trend in Germany is lagging due to the delayed ability of charging on the rising guaranteed price due to contract positions with clients
- Positive revenue, volume and market share trends in Southeast Europe
- Recovery of volume and result in North and West Africa; revenue and result in Nigeria under pressure due to fire at production facility and negative currency translation effects

Results	2017 first half-year	2016 first half-year	Δ%	2016 year
in millions of euros, unless stated otherwise				
Revenue	1,761	1,761	0.0	3,419
Revenue before currency translation effects	1,832	1,761	4.1	
Operating profit ¹	▼			
Price effect on revenue ¹	▲			
Volume trend (in percentage) ¹	-6.2			
Volume mix effect on revenue (in percentage) ¹	-2.3			

¹ Compared to the first half-year 2016.

Consumer Products Asia

The revenue in the first half-year rose by 13.9 percent to 1,311 million euros due to the acquisition of Engro Foods in Pakistan. The organic growth in revenue amounted to 0.1 percent and the organic growth in volume was 2.4 percent. The positive currency translation effect on revenue amounted to 21 million euros. The operating profit declined due to the increase in raw material prices that could only be passed on in part and with a delay, into of the sales prices. Price competition continued to increase.

- 28.7-percent growth in volume primarily due to the acquisition of Engro Foods and due to growth in Indonesia and Vietnam
- Frisian Flag realised strong growth in Indonesia with its condensed milk
- Revenue and volume under pressure in Hong Kong and the Philippines
- Sales in Hong Kong under pressure due to decrease in tourism from China and export restrictions from Hong Kong to China. Friso is currently market leader in Hong Kong and Macau
- Market shares in the region under pressure due to increasing price competition from local competitors
- Engro Foods in Pakistan experienced a difficult half-year. Sales declined significantly due to local protests against packaged milk and the margin was under pressure due to local tax measures

Results	2017 first half-year	2016 first half-year	Δ%	2016 year
in millions of euros, unless stated otherwise				
Revenue	1,311	1,151	13.9	2,321
Revenue excluding acquisition	1,152	1,151	0.1	
Revenue excluding acquisition and prior to currency translation effects	1,131	1,151	-1.7	
Operating profit ¹	▼			
Price effect on revenue ¹	▼			
Volume trend (in percentage) ¹	28.7			
Volume trend excluding acquisition (in percentage) ¹	2.4			
Volume mix effect on revenue (in percentage) ¹	-0.1			

¹ Compared to the first half-year 2016.

Consumer Products China

Revenue of the Consumer Products China business group stabilised in the first half-year. Competition on price increased ahead of the new registration criteria for infant nutrition to go into effect in 2018. The volume declined by 8.5 percent due to the declining demand for Friso Gold in China. By contrast, Friso Prestige realised volume growth in the higher premium segment. The total Friso market share remained the same in comparison to last year. Dutch Lady infant nutrition, produced by the joint venture Friesland Huishan Dairy, is well received by the market. The business group's operating profit is under pressure due to the increased competition on price.

- Friso Prestige is growing in volume due to the further expansion of its distribution network to include additional cities and the increasing demand for higher premium segment infant nutrition
- Friso Gold is retaining its number 1 market position in digital sales, but volume is under pressure
- Friso Stage 1, Stage 2 and Stage 3 were approved by the China Food and Drug Administration at the beginning of August 2017. Effective from 1 January 2018, only approved infant nutrition recipes may be sold
- The importance of online activation and sales continues to increase
- Black & White condensed milk continues to grow in the catering segment
- Friesland Huishan Dairy continues its activities and achieved growth with Dutch Lady infant nutrition. Development is proceeding according to plan, with results expected to continue to be loss-making for the time being

Results	2017 first half-year	2016 first half-year	Δ%	2016 year
in millions of euros, unless stated otherwise				
Revenue	295	296	-0.3	575
Revenue before currency translation effects	301	296	1.8	
Operating profit ¹	▼			
Price effect on revenue ¹	~			
Volume trend (in percentage) ¹	-8.5			
Volume mix effect on revenue (in percentage) ¹	1.7			

¹ Compared to the first half-year 2016.

Cheese, Butter & Milkpowder

The revenue of the Cheese, Butter & Milkpowder business group increased by 23.8 percent to 1,516 million euros in the first half-year 2017. The total sales volume of cheese, butter and milk powder decreased by 6.1 percent due to the lower milk production of member dairy farmers. The sales prices for butter (for industrial buyers) and to a lesser extent cheese increased considerably in 2017. Operating profit improved significantly due to the pricing policy and farther-reaching cost controls.

- Cheese sales to supermarkets in Europe rose in volume as well as value
- Significant increase in Zijerveld's volume and result
- Further increase in the sale of meadow cheese
- Butter sales prices at record high and further increase in the sales volume of specialty butters
- Milk powder sales prices continue to be low in part due to the European stocks of skimmed milk powder
- FrieslandCampina Export result under pressure due to difficult market conditions, especially in Africa, the higher guaranteed price and negative currency translation effects

Results	2017 first half-year	2016 first half-year	Δ%	2016 year
in millions of euros, unless stated otherwise				
Revenue	1,516	1,225	23.8	2,565
Operating profit	▲			
Price effect on revenue ¹	▲			
Volume trend (in percentage) ¹	-6.1			
Volume mix effect on revenue (in percentage) ¹	-1.3			

¹ Compared to the first half-year 2016.

Ingredients

The revenue of the Ingredients business group increased by 5.3 percent to 893 million euros in the first half-year 2017. This increase is due to price increases. The volume declined slightly. Operating profit remained the same over the first half-year. Excluding the one-off gain in 2016, due to the sale of a business unit, the operating profit rose due to the improved margin.

- FrieslandCampina DMV successful in the sale of caseinates and protein-rich specialties for sports nutrition
- FrieslandCampina Domo's result under pressure due to a decline in the purchase of ingredients for infant nutrition by third parties due to the new Chinese guidelines and legislation
- DFE Pharma experienced further growth due to growth in market share among major clients
- Further increase in revenue from added value products
- Margin improved due to cost controls and improvements in efficiency

Results	2017 first half-year	2016 first half-year	Δ%	2016 year
in millions of euros, unless stated otherwise				
Revenue	893	848	5.3	1,667
Operating profit	~			
Price effect on revenue ¹	▲			
Volume trend (in percentage) ¹	-1.5			
Volume mix effect on revenue (in percentage) ¹	-1.9			

¹ Compared to the first half-year 2016.



Introduction of organic Vivinal GOS syrup

FrieslandCampina Domo has introduced an organic GOS syrup. This way it anticipates the increasing demand for organic ingredients for infant nutrition. This organic dairy ingredient is rich in non-digestible galacto oligosaccharides (GOS) and is produced from organically certified lactose through means of a patented enzyme technology. In the intestines the product stimulates the growth of beneficial bacteria, inhibits the growth of harmful bacteria and helps maintain a healthy digestive system.

Condensed consolidated income statement

In millions of euros	first half-year 2017	first half-year 2016 ¹
Revenue	6,072	5,486
Cost of goods sold	-5,057	-4,548
Gross profit	1,015	938
Advertising and promotion costs	-272	-266
Selling, general and administrative costs	-444	-403
Other operating costs and income	-24	-14
Operating profit	275	255
Finance income and costs	-30	-25
Share of profit of joint ventures and associates, net of tax	8	9
Profit before tax	253	239
Income tax expense	-91	-79
Profit for the period	162	160
Profit attributable to:		
• holders of member bonds	21	21
• provider of Cooperative loan	4	5
• shareholder	103	91
• shareholder and other providers of capital	128	117
• non-controlling interests	34	43
Profit for the period	162	160

¹ The presentation of the comparative figures for 2016 has been adjusted. See page 24 of the basis for preparation of the consolidated half-year report for a disclosure of the adjustment of the comparative figures.

Condensed consolidated statement of comprehensive income

In millions of euros	first half-year 2017	first half-year 2016
Profit for the period	162	160
Items that will or may be reclassified to the income statement:		
Effective portion of cash flow hedges, net of tax	10	3
Currency translation differences, net of tax	-116	-26
Change in fair value of available-for-sale financial assets, net of tax	-19	3
Realised revaluation of available-for-sale financial assets, net of tax	-8	
Share of other comprehensive income of joint ventures and associates accounted for using the equity method, net of tax	-1	
	-134	-20
Items that will not be reclassified to the income statement:		
Remeasurement of liabilities (assets) under defined benefit plans, net of tax	11	-58
	11	-58
Other comprehensive income, net of tax	-123	-78
Total comprehensive income for the period	39	82
Total comprehensive income attributable to:		
• shareholder and other providers of capital	24	45
• non-controlling interests	15	37

Condensed consolidated statement of financial position

In millions of euros	30 June 2017	31 December 2016 ¹
Assets		
Property, plant and equipment	3,196	3,228
Intangible assets	1,819	1,924
Biological assets	8	8
Deferred tax assets	333	344
Employee benefits	5	6
Other non-current assets	175	291
Non-current assets	5,536	5,801
Inventories	1,609	1,527
Receivables	1,717	1,471
Cash and cash equivalents	427	514
Assets held for sale	74	5
Current assets	3,827	3,517
Total assets	9,363	9,318
Equity		
Issued capital	370	370
Retained earnings and other reserves	944	939
Equity attributable to shareholder	1,314	1,309
Member bonds	1,565	1,564
Cooperative loan	291	296
Equity attributable to shareholder and other providers of capital	3,170	3,169
Non-controlling interests	390	446
Total equity	3,560	3,615
Liabilities		
Employee benefits	494	539
Deferred tax liabilities	200	221
Interest-bearing borrowings	1,292	1,152
Other non-current liabilities	102	112
Non-current liabilities	2,088	2,024
Interest-bearing borrowings	624	558
Other current liabilities	3,070	3,121
Liabilities held for sale	21	
Current liabilities	3,715	3,679
Total liabilities	5,803	5,703
Total equity and liabilities	9,363	9,318

¹ The presentation of the comparative figures for 2016 has been adjusted to reflect the final purchase price allocation related to Engro Foods Ltd. See page 25 of the notes to the half-year report for a disclosure of the adjustment of the purchase price allocation.

Condensed consolidated statement of cash flows

In millions of euros	first half-year 2017	first half-year 2016
Profit before tax	253	239
Depreciation of plant and equipment and amortisation of intangible assets	184	149
Movements in inventories, receivables and liabilities	-350	-177
Other operating activities	-58	-46
Net cash flows from operating activities	29	165
Investments in property, plant and equipment and intangible assets	-250	-288
Disposals of property, plant and equipment, intangible assets and assets held for sale	3	3
Divestment of businesses, net of cash and cash equivalents		28
Received repayments and loans issued	-19	-4
Acquisitions, net of cash and cash equivalents	-7	-1
Divestments of securities	31	
Net cash flows used in investing activities	-242	-262
Dividends paid to non-controlling interests	-71	-50
Interest payment to holders of member bonds	-33	-36
Interest-bearing borrowings drawn down	929	477
Repayment of interest-bearing borrowings	-699	-752
Settlement of derivatives and other	-4	-1
Net cash flows from/used in financing activities	122	-362
Net cash flow	-91	-459
Cash and cash equivalents at 1 January ¹	354	718
Net cash flow	-91	-459
Currency translation differences on cash and cash equivalents	-27	-23
Cash and cash equivalents at 30 June ¹	236	236

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

Condensed consolidated statement of changes in equity

In millions of euros	first half-year 2017			first half-year 2016		
	Equity ¹	Non-controlling interests	Total	Equity ¹	Non-controlling interests	Total
At 1 January	3,169	446	3,615	2,832	261	3,093
Total comprehensive income for the period	24	15	39	45	37	82
Transactions with shareholder and other providers of capital directly recognised in equity:						
• dividends paid to non-controlling interests		-71	-71		-50	-50
• interest payment to provider of Cooperative loan	-8		-8	-9		-9
• interest payment to holders of member bonds	-39		-39	-39		-39
• pro forma issuance of member bonds - fixed	24		24	49		49
Total transactions with shareholder and other providers of capital	-23	-71	-94	1	-50	-49
At 30 June	3,170	390	3,560	2,878	248	3,126

¹ Equity attributable to shareholder and other providers of capital.

Notes to the condensed consolidated half-year figures

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 under number 11057544. The consolidated half-year figures for the period ending 30 June 2017 comprise 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.

The consolidated half-year figures in this report have not been audited.

Basis of preparation

Statement of compliance

This half-year report has been prepared in accordance with IAS 34 'Interim financial reporting'. This half-year report must be read in conjunction with the 2016 financial statements, which were prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, where applicable.

For these consolidated half-year figures, the same basis of preparation and calculation methods are applied as used in the 2016 financial statements. Various IFRS amendments became effective as of 2017. These amendments do not have any impact on the consolidated financial statements of FrieslandCampina.

In assessing the effect of IFRS 15 'Revenue from Contracts with Customers' on its consolidated financial statements, FrieslandCampina more closely investigated revenue recognition for certain contracts. This has resulted in a reduction of EUR 36 million in revenue and cost of goods sold in the comparative figures for 2016 for sales with a buy-back element. This adjustment does not affect the gross profit, equity or the balance sheet total.

Judgements, estimates and assumptions

The preparation of the consolidated half-year figures 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. For an overview of the key assumptions and estimates please refer to the 2016 financial statements. During the first half-year of 2017 there were no significant changes in this context, aside from those explained in this half-year report.

In the half-year report the performance premium is calculated pro forma, including the pro forma issuance of member bonds-fixed.

Consolidation of entities

On 5 January 2017, FrieslandCampina acquired a 100% interest in A-ware Workum B.V. This entity is therefore fully consolidated. Please refer to the 2016 financial statements for the other consolidation principles.

Financial risk management

The key objectives and procedures of financial risk management within FrieslandCampina are consistent with the objectives and procedures disclosed in the 2016 consolidated financial statements.

Seasonal influences

There is no significant seasonal pattern when comparing the first with the second half of a year.

Acquisitions

Acquisitions 2017

Acquisition A-ware Workum B.V.

As per 5 January 2017, FrieslandCampina acquired full control of the activities of the A-ware cheese warehouse in Workum by acquiring a 100% interest in A-ware Workum B.V. for an amount of EUR 6 million. The cheese warehouse activities involve storing and ripening of cheese. The fair value of the assets acquired and liabilities assumed has been determined at EUR 7 million and EUR 1 million, respectively. Up until the time of acquisition, FrieslandCampina recognised the cheese warehouse as a financial lease. This acquisition does not have a material effect on FrieslandCampina in the context of the disclosure requirements of IFRS 3 'Business Combinations'.

Acquisitions 2016

Engro Foods

The purchase price allocation relating to the acquisition of a 51% interest in Engro Foods Ltd. ('Engro Foods') is finalized at the end of June 2017. The final purchase price allocation resulted in a change in the fair value of the acquired intangible assets and the goodwill recognised. The fair value of the customer relations and brands is reduced by EUR 87 million, mainly due to the final determination of the attrition rate of customer relationships. Because of this adjustment, deferred tax liabilities, non-controlling interest and the goodwill recognised changed. Furthermore, the final agreed purchase consideration resulted in a minor adjustment of the goodwill. The comparative figures were adjusted accordingly.

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

	Provisional purchase price allocation	Adjustment	Final purchase price allocation
Property, plant and equipment	156		156
Intangible assets	378	-87	291
Biological assets	8		8
Inventories	46		46
Trade receivables and other assets	43		43
Cash and cash equivalents	14		14
Deferred tax liabilities	-140	26	-114
Other liabilities	-59	3	-56
Total identifiable assets and liabilities	446	-58	388

Goodwill related to the acquisition has been recognised as follows:

	Provisional purchase price allocation	Adjustment	Final purchase price allocation
Consideration paid	436	1	437
Contingent consideration		1	1
Non-controlling interest on the basis of the proportional share in the fair value of net identifiable assets	219	-29	190
Fair value of the identifiable assets and liabilities	-446	58	-388
Goodwill	209	31	240

Operating expenses

The cost of goods sold includes milk payments to member dairy farmers of EUR 2,109 million (first half-year 2016: EUR 1,699 million).

Other operating costs and income

Securities

On 24 March 2017, the Hong Kong Stock Exchange suspended trading of the shares in China Huishan Dairy Holdings Company Ltd. following a decline of 85% in the share price. The drop in the value of China Huishan Dairy Holdings Company Ltd. followed negative reporting about the company. FrieslandCampina holds a 1.1% interest in China Huishan Dairy Holdings Company Ltd., which was valued at EUR 53 million on 31 December 2016. On the basis of the last share price available on 24 March 2017, the value of this interest declined to EUR 7 million. The original investment in the shares in China Huishan Dairy Holdings Company Ltd. in 2015 amounted to EUR 27 million. The revaluation loss from EUR 53 million to the original purchase price of EUR 27 million is recognised in other comprehensive income. The difference of EUR 20 million between the fair value as at 30 June 2017 and the original purchase price is recognised as an expense in other operating costs.

In March 2017, the interest of 8.2% in Synlait Milk Ltd. was divested. The realised profit of EUR 9 million is recognised in other operating income, of which EUR 8 million was transferred from the fair value reserve within equity.

Finance income and costs

In finance income and costs a negative result on currency translations on receivables and payables in foreign currencies of EUR 4 million is recognised in the first half-year of 2017. In the first half-year of 2016 this was a negative result of EUR 7 million.

Income tax expense

The tax expense amounts to EUR 91 million (first half-year of 2016: EUR 79 million). The increase is mainly due to the higher profit. The higher effective tax rate of 35.8% in the first half-year of 2017 compared to 33.0% in the first half-year of 2016 is among others due to adjustments to estimates related to previous years.

Property, plant and equipment

The movements in property, plant and equipment during the first half-year of 2017 can be specified as follows:

Carrying amount at 1 January	3,228
Acquired through acquisition	1
Additions	200
Disposals	-2
Currency translation differences	-53
Reclassifications	-7
Reclassifications to assets held for sale	-21
Depreciation	-149
Impairments	-2
Reversal of impairments	1
Carrying amount at 30 June 2017	3,196

The additions of EUR 200 million relate primarily to expansion of production capacity and replacement investments in the Netherlands (first half-year of 2016: EUR 187 million).

Intangible assets

The movements in intangible assets during the first half-year of 2017 can be specified as follows:

Carrying amount at 1 January	1,924
Additions	26
Reclassifications to assets held for sale	-34
Currency translation differences	-69
Reclassifications	7
Amortisation	-35
Carrying amount at 30 June 2017	1,819

In 2010 FrieslandCampina started a global ICT-standardisation programme. During the first half-year of 2017 an amount of EUR 18 million was capitalised and an amount of EUR 13 million was amortised. During 2012 the system went live for the first group of operating companies. Subsequently the implementation was rolled-out to other operating companies. Rolling-out the system to the remaining operating companies will take several years and is expected to be completed in 2019.

Goodwill impairment test

FrieslandCampina performs the annual goodwill impairment test during the second quarter of each year and whenever there is an indication that goodwill may be impaired. Goodwill is monitored and tested at business group level. The goodwill impairment test calculates the recoverable amount (the value in use) for each business group.

The goodwill allocated to each cash-generating unit is as follows:

	30 June 2017	31 December 2016
Consumer Products EMEA	530	564
Consumer Products Asia	316	319
Consumer Products China	110	109
Cheese, Butter & Milkpowder	33	33
Ingredients	162	162
	1,151	1,187

The key assumptions applied in the calculation of the value in use for each business group are listed in the table below:

	% Growth rate terminal value		% Average growth rate gross profit		% Pre-tax discount rate	
	2017	2016	2017	2016	2017	2016
Consumer Products EMEA	3.5	2.5	7	4	10	10
Consumer Products Asia	3.5	3.0	5	3	10	8
Consumer Products China	3.0	3.0	8	16	9	8
Cheese, Butter & Milkpowder	1.5	1.0	2	11	7	8
Ingredients	2.5	1.0	11	10	8	7

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 based on the 2017 budget and the long-term plans until 2021. A compensation for the cooperative role the business group Cheese, Butter & Milkpowder plays in processing member milk, and in particular fat, is also taken into account. This compensation by the other business groups serves to cover the loss on processing member milk into basic dairy products realised by Cheese Butter & Milkpowder, 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 rate was applied, as is best practice in the market, capped at the forecasted inflation rate with respect to government bonds.

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

Inventories

An amount of EUR 99 million of the inventories of finished goods and commodities is valued at net realisable value (end of 2016: EUR 116 million). The write-down to net realisable value that pertains to the inventories of finished goods and commodities as stated in the statement of financial position as at 30 June 2017 amounts to EUR 22 million (end of 2016: EUR 21 million).

Assets and liabilities held for sale

The assets and liabilities held for sale are primarily related to fruit juice and fruit drink activities in the Netherlands and Belgium.

Interest-bearing borrowings

In 2016, FrieslandCampina agreed on a loan facility capped at EUR 150 million with the European Investment Bank (EIB). This loan will be used for research into and development of new products. The loan is subject to a 7 or 10-year term from the date FrieslandCampina starts making use of this facility. The interest rate will be determined at that time and the issuance costs will be amortised over the duration of the loan. As at 31 December 2016 an amount of EUR 30 million was drawn down from this loan by FrieslandCampina. An additional EUR 70 million was drawn down in the first half year of 2017.

In 2016, FrieslandCampina agreed upon a loan with IFC for a maximum of USD 100 million as part of the acquisition of a 51% interest in Engro Foods. This loan was drawn down for an amount of USD 100 million in January 2017. The USD repayments and interest payment obligations associated with this loan have been converted into EUR obligations with a fixed interest rate through means of cross-currency swaps.

In April 2017, FrieslandCampina repaid USD 63 million and EUR 25 million of loans privately placed to institutional investors in the United States in 2010. The cross currency swaps related to this loan were also settled in April 2017.

Financial instruments

Accounting classifications and fair values

The carrying amounts of financial assets and liabilities, as recognised in the consolidated statement of financial position, are stated in the table below per valuation method, as are the financial instruments that are either measured at fair value, or for which the carrying amounts differ from the fair value. The fair value is the price that would be received or paid if the receivables and/or payables were settled on the statement of financial position 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 prices included within 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.

2017										
	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
Financial assets not measured at fair value										
Loans issued - fixed interest rate				46		46		47		47
Loans issued - variable interest rate				10		10				
Long-term receivables				3		3				
Trade and other receivables				1,717		1,717				
Cash and cash equivalents				427		427				
				2,203		2,203				
Financial assets measured at fair value										
Hedging derivatives		32				32		32		32
Securities			8			8			8	8
		32	8			40				
Financial liabilities not measured at fair value										
Non-current interest-bearing borrowings - fixed interest rate					892	892		898		898
Non-current interest-bearing borrowings - variable interest rate					400	400		403		403
Current part of the non-current interest-bearing borrowings - fixed interest rate					60	60		61		61
Current part of the non-current interest-bearing borrowings - variable interest rate					7	7				
Current loans					366	366				
Bank overdrafts					191	191				
Trade payables and other liabilities					3,070	3,070				
					4,986	4,986				
Financial liabilities measured at fair value										
Hedging derivatives		13				13		13		13
Put-option liabilities	84					84			84	84
Contingent considerations	8					8			8	8
	92	13				105				

The fair value of the interest-bearing borrowings with a fixed interest rate was calculated based on an average weighted interest rate of 2.7% (end of 2016: 2.9%). The fair value of the loan issued with a fixed interest rate has been calculated using an average weighted interest rate of 2.8% (end of 2016: 2.7%).

Securities

FrieslandCampina holds a 1.1% interest in China Huishan Dairy Holdings Company Ltd. This interest is classified as other financial asset, included in other non-current assets. As a result of the suspension of trade in shares by the Hong Kong Stock Exchange on 24 March 2017, Level 3 is used as the valuation measurement method. The basis for the valuation is the last available share price.

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

In 2017, FrieslandCampina divested its 8.2% interest in Synlait Milk Ltd.

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 actual forward prices of contracts for comparable remaining terms. The fair value of interest swap contracts is determined using the present value based on current market information. The fair value of the commodity swaps is based on the statement of the mark-to-market valuations of the relevant counterparties.

Put option liabilities

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

FrieslandCampina has also issued a put option to the co-owner of another subsidiary. The fair value is determined based on the present value of the expected exercise price, if the put option is exercised. The measurement method for this liability is classified as Level 3.

Contingent considerations

The contingent consideration was assumed as a result of the acquisition of the distribution-related activities of the Anika Group. This contingent consideration is valued based on the present value of the expected payment, which is partly dependent on foreign currency developments of the Russian Rouble and external market developments. In the first half of 2017, EUR 8 million of this contingent consideration was paid. This measurement method is classified as level 3.

Movements and transfers

During the first half-year of 2017 movements of the financial instruments classified as Level 3 were as follows:

	2017		
	Contingent considerations	Put option liabilities	Securities
Carrying amount at 1 January	16	81	1
Transfer from Level 1			7
Settlement	-8		
Finance costs		2	
Fair value adjustment		1	
Carrying amount at 30 June 2017	8	84	8

In the first half of 2017, securities held in China Huishan Dairy Holdings Company Ltd. were transferred from Level 1 to Level 3, as explained above. There were no other transfers from or to levels 1, 2 or 3.

Commitments and contingencies

Commitments and contingencies do not differ materially from the commitments and contingencies included in the 2016 consolidated financial statements.

Transactions with related parties

There were no changes in respect of the nature of the disclosures on the related parties. The extent does not differ materially compared with the notes to the 2016 consolidated financial statements.

Subsequent events

On August 6, 2017, FrieslandCampina sold the fruit juice and fruit drink activities in the Netherlands and Belgium. This transaction will be finalised in the second half-year of 2017. The revenue related to these activities amounted to approximately EUR 125 million in 2016 and approximately 200 FTEs are employed.

Amersfoort (Netherlands), 25 August 2017



Every day Royal FrieslandCampina provides millions of consumers all over the world with dairy products that are rich in valuable nutrients from milk. With annual revenue of 11.0 billion euros, FrieslandCampina is one of the world's largest dairy companies.

FrieslandCampina produces and sells consumer products such as dairy-based beverages, infant nutrition, cheese and desserts in many European countries, in Asia and in Africa via its own subsidiaries. Dairy products are also exported worldwide from the Netherlands. In addition, products are supplied to professional customers, including cream and butter products to bakeries and catering companies in West Europe. FrieslandCampina sells ingredients and half-finished products to manufacturers of infant nutrition, the food industry and the pharmaceutical sector around the world.

FrieslandCampina has branch offices in 33 countries and employs just under 22,000 people. FrieslandCampina's products find their way to more than 100 countries. The Company's central office is based in Amersfoort, the Netherlands.

FrieslandCampina's activities are divided into five market-oriented business groups: Consumer Products Europe, Middle East & Africa; Consumer Products Asia; Consumer Products China; Cheese, Butter & Milkpowder and Ingredients.

The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A., with 18,900 member dairy farmers in the Netherlands, Germany and Belgium one of the world's largest dairy cooperatives.

Royal FrieslandCampina N.V.

Stationsplein 4
3818 LE Amersfoort
Netherlands
T +31 33 713 3333
www.frieslandcampina.com

