



FrieslandCampina nir
nourishing by nature



Half-Year Report 2018

Royal FrieslandCampina N.V.

Key Figures

millions of euros, unless stated otherwise	2018 first half-year	2017 first half-year	Δ%	2017 year
Results				
Revenue	5,721	6,072	-5.8	12,110
Revenue before currency translation effects	5,961	6,072	-1.8	
Operating profit	177	275	-35.6	444
Operating profit before currency translation effects	198	275	-28.0	
Profit	109	162	-32.7	227
Profit before currency translation effects	117	162	-27.8	
Operating profit as a % of revenue	3.1	4.5		3.7
Balance Sheet				
Balance sheet total	8,958	9,363		9,046
Equity attributable to the shareholder and other providers of capital	3,151	3,170		3,178
Equity as a % of the balance sheet total	35.2%	33.9%		35.1%
Buffer capital as a % of the balance sheet total ¹	14.3%	14.0%		14.2%
Net debt ²	1,536	1,612		1,400
Cash Flow				
Net cash flow from operating activities	186	29		418
Net cash flow used in investment activities	-216	-242		-414
Investments	202	226		531
Value creation for member dairy farmers				
in euros per 100 kilos of milk (exclusive of VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)				
Total compensation paid to member dairy farmers (in millions of euros)	1,982	2,109	-6.0	4,346
Guaranteed price	35.25	35.65	-1.1	37.96
Pro forma performance premium ³	0.55	1.56		1.03
Meadow milk premium ⁴	0.62	0.60		0.60
Special supplements ⁵	0.16	0.12		0.12
Pro forma cash price ³	36.58	37.93	-3.6	39.71
Pro forma issue of member bonds ³	0.16	0.44		0.30
Pro forma milk price ³	36.74	38.37	-4.2	40.01
Additional payments		0.09		0.04
Interest on member bonds	0.43	0.39		0.42
Pro forma retained earnings ³	0.78	1.89	-58.7	1.33
Pro forma performance price ³	37.95	40.74	-6.8	41.80
Interim pay-out ⁶				
75% of the pro forma performance premium	0.41	1.17		
Milk supplied by member dairy farmers (millions of kilos)	5,356	5,435	-1.5	10,716

¹ Buffer capital is the equity attributable to the shareholder.

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

³ The performance premium, the issue of member bonds and the retained earnings are determined on the basis of the full-year profit figures.

⁴ For 2018 dairy farmers applying grazing receive a 1.50 euro meadow milk premium per 100 kilos of milk exclusive of VAT for 2018. An amount of 1.00 euro per 100 kilos of meadow milk is paid from operating profit. On average, across all FrieslandCampina members milk, this amounts to 0.62 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 and to pay for the partial pasture grazing premium, 0.35 euro per 100 kilos of milk is withheld across all milk.

⁵ Special supplements concern the total amount of pay-outs (excluding VAT) 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 (48.33 euros per 100 kilos of milk) and the guaranteed price (35.25 euros per 100 kilos of milk). On average, across all FrieslandCampina member milk, this amounts to 0.16 euros per 100 kilos of milk.

⁶ The 2018 interim payment per 100 kilos of milk will be deposited into the member account on 1 September 2018 at the latest.

Milk price for member dairy farmers 36.74 euros

Basic dairy products and price competition in infant nutrition putting pressure on profit

- Revenue declined by 0.8 percent excluding currency effects and disposals
- Operating profit under pressure due to low prices for basic dairy products in comparison to the guaranteed price paid for members' milk
- Price competition in infant nutrition in Asia putting pressure on volume and margins
- Negative trend in added value volumes underlines the importance of the transformation process currently underway
- Transformation and restructuring costs in the first half-year amount to approximately 30 million euros
- Operating cash flow increased from 29 million euros to 186 million euros, primarily due to working capital improvements
- Milk price dropped to 36.74 euros per 100 kilos of milk (-4.2 percent)
- Milk supply dropped to 5,356 million kilos of milk (-1.5 percent)

The revenue of Royal FrieslandCampina N.V. amounted to 5,721 million euros over the first half-year of 2018. This is 5.8 percent lower in comparison to the first half-year of 2017, of which 5.0 percent is due to currency effects and the sale of Riedel. Profit decreased by 32.7 percent to 109 million euros, primarily due to losses on cheese, butter and milk powder basic dairy sales. Inventories of these basic dairy products, which were produced in previous months at higher milk prices, had to be sold at a loss. The negative trend in the added value volumes has not yet reversed itself. This underlines the importance of the transformation process initiated last year. Results of the sale of consumer products and ingredients, adjusted for currency effects, were stable. The pro forma milk price for member dairy farmers decreased by 4.2 percent to 36.74 euros per 100 kilos of milk. The interim payment for member dairy farmers amounts to 0.41 euro per 100 kilos of milk.

Hein Schumacher, CEO Royal FrieslandCampina N.V.:
 "In the first quarter of 2018, similar to the last quarter of 2017, FrieslandCampina faced low prices for basic dairy products, which insufficiently compensated the guaranteed price of milk paid by the Company to member dairy farmers. This puts pressure on the Company's results. There was a recovery in the second quarter. Strong price competition for infant nutrition in Asia is challenging us to fight for our market position. This requires additional investments and a nimble organisation. In part for this reason, the organisation structure was adjusted effective on 1 January 2018 and an intensive transformation programme is underway. This enables us to operate faster in the market and to structurally lower costs."

As part of the transformation programme non-profitable activities are being reviewed. For example, the supply chain network was reviewed and an announcement was made to close down two production facilities in France. The costs involved in these closures were recognised in the first half-year. Together with other restructuring initiatives, 30 million euros in transformation and restructuring costs were recognised.

Simplified organisation structure and recalibration strategy

Effective 1 January 2018, FrieslandCampina implemented a new, simplified organisation structure comprising four business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials. In the new organisation structure, commercial teams operate in the market with short decision-making lines, thus accelerating decision-making. This increases the organisation's nimbleness. It enables FrieslandCampina to 'win in the market', realising sustainable added value for its member dairy farmers.

A transformation programme supports employees in mastering new ways of thinking and working. Entrepreneurship and commercial excellence are essential in this respect. Therefore, more than four hundred corporate positions were relocated to the business groups, moving them closer to the market.

A strategic recalibration was initiated in February 2018 and will be announced to FrieslandCampina's member dairy farmers in the autumn. Subsequent to the *route2020* strategy a new long-term vision, consistent with changed market conditions, will be presented.

Interest in Friesland Huishan Dairy

In February FrieslandCampina announced that it has expanded its ownership of Friesland Huishan Dairy Investments (Hong Kong) Ltd by acquiring all remaining

shares. This operating company was founded in April 2015 for the production and sale of high-quality infant nutrition under the brand Dutch Lady in the People's Republic of China. Also, it produces tea and coffee creamers for other FrieslandCampina business units.

Sustainability and volume of members' milk

In mid-April, FrieslandCampina announced it would accelerate its strategy with a significant commitment to sustainability. The Company is planning to introduce a certified Top Dairy line with an extra focus on animals, nature and climate: dairy with low CO₂ equivalent and high scores on animal welfare and biodiversity. This Top Dairy line will meet all requirements related to meadow grazing and the new standard for the intrinsic link between farmers and the land available for their operations. In addition, FrieslandCampina has proposed its members a growth agreement in advance linking their increased milk supply to market growth. Milk production in excess of market growth will lead to a reduced milk price. A decision will be taken in December and is planned to become effective as of 1 January 2019.

Lower revenue

The decline in revenue (-5.8 percent) is mainly caused by currency effects (4.0 percent) and the sale of Riedel (1.0 percent). Lower volumes and prices account for an adverse effect of 0.8 percent.

Market trends in the first half of 2018

Due to shrinking margins and unfavourable weather conditions in the world's key export regions in the first half of 2018, the increase in milk supply remained limited. For example, in New Zealand, milk production virtually ended up at the same level as the previous season due to changing weather conditions, with alternating conditions of extreme rainfall and drought conditions. In Europe and the United States, the growth in milk supply was lower than expected due to cold and snowfall. To ensure the phosphate production in the Netherlands stays below the phosphate ceiling, a general discount was applied effectively from 1 January 2018. As a result a number of dairy farmers were forced to reduce their livestock. The supply of milk in the Netherlands declined by a fraction mainly due to this measure.

Milk powder from intervention stocks

Low prices for basic dairy are in part caused by the sale of approximately 100,000 tonnes of skimmed milk powder from intervention stocks in the European Union. The rate at which this milk powder is brought to the market is 1,100 euros per tonne product on average and is significantly lower than the original purchase price of 1,700 euros.

Butter prices are increasing

With the lower supply of milk, supply of butter is lagging. This caused butter prices to increase at the beginning of 2018. As a precautionary measure, market parties decided to purchase increased volumes as a hedge against potential future shortages. Prices increased from 4,100 euros per tonne in January to almost 6,000 euros in June. The price of cheese showed a less steep increase: from 2,700 euros per tonne in April to nearly 3,000 euros in June.

Lower operating profit and profit

Operating profit in the first half of 2018 amounts to 177 million euros, 35.6 percent lower compared to the first six months of 2017. Currency effects had a negative effect of 21 million euros on the operating profit. Without currency effects, the operating profit is 28.0 percent lower than in 2017.

In the first quarter of 2018, similar to the last quarter of 2017, the loss on basic dairy was substantial to the amount of approximately 135 million euros. In addition, severe price competition in Asia for the infant nutrition market had an adverse effect on operating profit. The trend in the second quarter results is positive, but insufficient to offset the backlog created compared to the first half of 2017. The results of the Consumer Dairy and Ingredients business groups, adjusted for currency effects, are showing a stable trend. Furthermore, approximately 30 million euro of transformation and restructuring costs are impacting the result.

As a result of the lower operating profit, profit over the first half-year of 2018 decreased by 32.7 percent to 109 million euros in comparison to the same period in 2017. This is partially offset by a lower tax burden, in part due to the positive effect of tax rate changes abroad.

27 million euros of the profit will be attributed to the provider of the cooperative loan (Zuivelcoöperatie FrieslandCampina U.A.) and the holders of member bonds (first half-year 2017: 25 million euros). The share of non-controlling interests amounts to 41 million euros (2017: 34 million euros) and 41 million will be added to the retained earnings (2017: 103 million euros).

FrieslandCampina invested 260 million euros in advertising and promotion. This is comparable to the first half of 2017, before currency effects. Sales and general administrative costs decreased by 3.2 percent to 430 million euros as a result of currency effects and savings in the context of the FastForward Programme. In addition, they were partially offset by investments in strengthening the organisation.

Cash flow significantly higher

At 186 million euros, the cash flow from operating activities was significantly higher. This represents an increase of 157 million euros in comparison to 2017 (first half-year 2017: 29 million euros), primarily due to a working capital improvement. Over the first half-year of 2018, the cash outflow for investment activities amounted to 216 million euros (first half-year 2017: 242 million euros).

The cash flow from financing activities amounted to 70 million euros (first half-year 2017: 122 million euros).

This includes the interest paid to holders of member bonds and the dividend paid to non-controlling interests offset by higher use of the credit facility. The net cash flow amounted to 40 million euros (first half-year 2017: -91 million euros). The balance of cash and cash equivalents equals 234 million euros.

Financial position

The net debt amounted to 1,536 million euros as of 30 June 2018. This represents an increase of 136 million euros compared to 31 December 2017.

The buffer capital slightly declined to 1,280 million euros. As a percentage of the balance sheet total, the buffer capital increased to 14.3 percent.

The equity attributable to the shareholder and other providers of equity is 3,151 million euros (year-end 2017: 3,178 million euros). This change is caused by the addition of the retained earnings and the increase in the number of member bonds offset by negative currency differences, the interest paid to the holders of member bonds and the acquisition of the remaining 50 percent in Friesland Huishan Dairy Investments (Hong Kong) Ltd.

Solvency virtually remained the same at 35.2 percent (year-end 2017: 35.1 percent).

As of 30 June 2018, the total equity, including non-controlling interests, amounted to 3,495 million euros (year-end 2017: 3,512 million euros). The total equity decreased due to the payment of dividend to non-controlling interests and due to unfavourable currency differences.

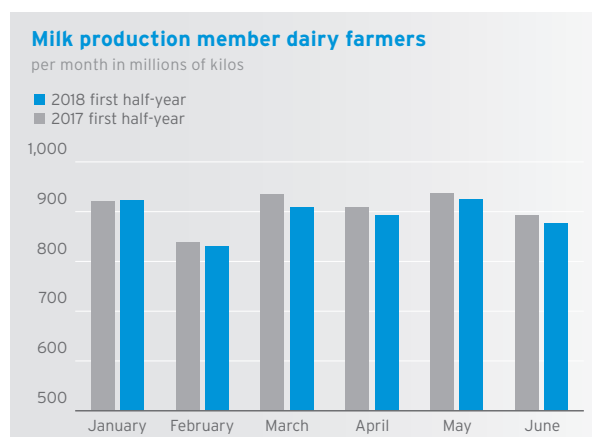
Financing

The main component of FrieslandCampina's short-term funding consists of 416 million euros of short-term debt securities issued under the Euro-Commercial Paper Programme (ECP Programme). A 1 billion euro committed credit facility with a bank syndicate with a minimum term of up to October 2022 is available for general use and functions as coverage for the ECP Programme. The borrowings under this facility were 20 million euros as at the end of June 2018. The main component of the outstanding long-term loans consists of 300 million euros in 'Green Bonds' (Green Schuldschein), USD 563 million in loans from American institutional investors, a USD 100 million loan from the International Finance Corporation (IFC) and a 150 million euro loan from the European Investment Bank

(EIB). The liabilities in US dollars are converted into euro liabilities via cross-currency swaps with a fixed interest rate. In June 2018, an additional 50 million euros was borrowed from EIB, as a result of which the 150 million euro facility obtained in 2016 is fully utilised.

Milk supplied by member dairy farmers

In comparison to the first six months of the previous year, the milk supplied by member dairy farmers decreased in the first half-year 2018 by 79.5 million kilos (1.5 percent) to 5,356 million kilos of milk.



The system of phosphate rights for dairy livestock went into effect on 1 January 2018. The objective of this system is to ensure that phosphate production drops below the phosphate ceiling. A dairy farm is not permitted with the dairy cattle kept for commercial purposes to produce more phosphate than the number of phosphate rights that have been granted. As a result of this measure, the number of dairy cattle held by member dairy farmers in the Netherlands has decreased by approximately 3 percent (about 34,000 cows) since 1 January 2018.

On 22 November 2017, the Cooperative's Board and FrieslandCampina's Executive Board announced a temporary conditional measure that was to be activated in the event of an imbalance between the milk supply and processing capacity, during the period of 1 January up to and including 30 June 2018. During this period it did not prove necessary to activate this measure.

Value creation for members

The total compensation paid to member dairy farmers for their milk decreased by 6.0 percent to 1,982 million euros (2017: 2,109 million euros). This includes a 1.5 percent reduction in milk supply (5,356 million kilos).

The pro forma milk price for the member dairy farmers over the first half-year of 2018 decreased by 4.2 percent to 36.74 euros per 100 kilos of milk exclusive of VAT (first half-year 2017: 38.37 euros). The milk price that FrieslandCampina pays member dairy farmers on an annual basis consists of the guaranteed price, the annual performance premium, the meadow milk premium, the special supplements premium and the issue of member bonds.

The guaranteed price over the first half-year of 2018 remained stable with a marginal decrease of just over 1 percent to 35.25 euros per 100 kilos of milk (first half-year 2017: 35.65 euros).

The pro forma value creation (performance premium and issue of member bonds) amounted to 0.71 euro per 100 kilos of milk (first half-year 2017: 2.00 euros). The pro forma performance premium amounted to 0.55 euro per 100 kilos of milk (first half-year 2017: 1.56 euro), and the pro forma issue of member bonds amounted to 0.16 euro per 100 kilos of milk (first half-year 2017: 0.44 euro). The decrease in value creation is the direct result of the lower profit.

The meadow milk premium amounts to gross 1.50 euros per 100 kilos of milk. Furthermore, FrieslandCampina rewards partial pasture grazing at 0.46 euro per 100 kilos of milk. The Company finances the meadow milk premium in the amount of 1.00 euro per 100 kilos of milk. The remaining 0.50 euros per 100 kilos of milk is paid by 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. The meadow milk premium amounts to 0.62 euro per 100 kilos of milk (first half-year 2017: 0.60 euro) across all milk.

The interest on member bonds is 0.43 euro per 100 kilos of milk (first half-year 2017: 0.39 euro). The interest paid on member bonds increased from 21.1 million euros to 23.0 million euros due to the increase in the number of member bonds. The interest rate over the period from 1 January to 31 May 2018 amounted to 2.976 percent. The interest rate over the period 1 June to 30 November 2018 amounts to 2.981 percent (the 6-month Euribor interest rate of -0.269 percent in early June 2018 plus the 3.25 percent markup).

The pro forma retained earnings amounted to 0.78 euro per 100 kilos of milk (first half-year 2017: 1.89 euros).

The pro forma performance price over the first half-year 2018 amounted to 37.95 euros per 100 kilos of milk exclusive of VAT (first half-year 2017: 40.74 euros), a 6.8 percent decrease compared to the first half-year of 2017. The performance price consists of the guaranteed price, the performance premium, the meadow milk premium, the special supplements premium, the issue of member bonds, the interest on member bonds and the retained earnings.

The organic milk price over the first half-year 2018 amounted to 50.04 euros per 100 kilos of milk exclusive of VAT (first half-year 2017: 51.44 euros). The guaranteed price for organic milk over the first half-year 2018 amounted to 48.33 euros per 100 kilos of milk exclusive of VAT (first half-year 2017: 48.44 euros).

Interim payment of 0.41 euro per 100 kilos of milk

On 1 September 2018 at the latest, FrieslandCampina will distribute an interim payment in the amount of 0.41 euro per 100 kilos of milk (exclusive of VAT) to the member dairy farmers of Zuivelcoöperatie FrieslandCampina U.A. This payment is 0.76 euro lower than in the first half-year of 2017. The interim payment represents 75 percent of the pro forma performance premium over the first half year. The final settlement will be effectuated in April 2019, based on FrieslandCampina's results for the financial year and the quantity of milk supplied in 2018.

Safety

Over the first half-year of 2018, the total number of accidents decreased by 25 percent to 73 accidents (first half-year 2017: 96). FrieslandCampina defines 'accidents' as all accidents resulting in sick leave, adjusted work arrangements or medical treatment. Over the first half-year of 2018, the total number of accidents per 200,000 hours worked decreased to 0.34 (first half-year 2017: 0.68). The target for the full year 2018 is 0.55.

Sustainability

The objectives and activities in the area of corporate social responsibility form an integral part of FrieslandCampina's business strategy. They are linked to FrieslandCampina's *nourishing by nature* purpose statement: - better nutrition for the world, a good living for our farmers, now and for generations to come. The activities contribute to the Sustainable Development Goals of the United Nations.

Pasture grazing

A grazing cow is part of the Dutch cultural landscape. This is the view of many Dutch citizens. As a result, the cow contributes to a positive image and to the visibility of the

dairy sector, domestically and abroad. FrieslandCampina encourages member dairy farmers in the Netherlands, Belgium and Germany to allow their cows and young livestock to graze. When dairy cows are allowed to graze in the pasture for a minimum of six hours a day on at least 120 days per year, the dairy farmer is entitled to a meadow milk premium. Partial pasture grazing is encouraged as well. FrieslandCampina's aim is for 81.2 percent of dairy farmers to apply meadow grazing by 2020. In 2017, 79.4 percent of member dairy farmers let their cows graze in a pasture. In the first half of 2018, additional 303 dairy farmers registered their dairy cattle for pasture grazing. The final meadow grazing rate for 2018 will be announced at the end of the year after the pasture grazing season has finished.

Dairy Development Programme (DDP)

With its Dairy Development Programme (DDP), FrieslandCampina supports local dairy farmers (mainly small farmers) in Asia, Africa and Eastern Europe in improving their local dairy farms, increasing milk quality and improving productivity per cow. In the first half of 2018, 20,534 dairy farmers in Vietnam, Indonesia, Thailand, Nigeria and Malaysia were trained and provided with advice by FrieslandCampina employees and Dutch dairy farmers that form part of the Farmer2Farmer Programme. In January 2018, twelve Dutch dairy farmers were trained for the Farmer2Farmer Programme. That brings the number of certified trainers within this programme to 26.

Climate-neutral growth

FrieslandCampina is committed to climate-neutral growth by keeping greenhouse gas emissions in 2020 equal to or lower in comparison to 2010. This includes the greenhouse gases released at member dairy farms, during transport from the farm to production facilities and when dairy is being processed.

In the first half year of 2018, water efficiency amounted to 3.3 m³/tonne of the finished product (first half-year 2017: 3.6 m³/tonne of the finished product). This improvement is due to a change in the mix by including the new facilities in Pakistan and the sale of Riedel. In June a new installation was commissioned for the reuse of wastewater at the production facility in Ciracas (Indonesia). This has resulted in a 30 percent water saving for that location.

The energy efficiency in the production of dairy products deteriorated slightly to 2.87 GJ/tonne of finished product in comparison to the first half-year of 2017 (first half-year 2017: 2.8 GJ/tonne of finished product). Energy saving projects in all major production facilities are showing results.

Inefficient boilers have been replaced and new innovative technologies have been implemented to provide more efficient evaporation. In the first instance, these effects are partially negated by testing new processes that will only be more energy efficient over time when they are running at full capacity. Since 2018, the cheese location in Balkbrug (NL) has been making full use of green heat, produced by a steam boiler fuelled by prunings.

Risks

The 2017 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 of 2018 concern price trends and the supply of basic dairy products. The second quarter was especially characterised by a strong increase in prices. Stable price levels are expected for the second half of 2018. While the global supply of basic dairy is expected to increase somewhat, growth in the Netherlands is expected to continue to be limited through environmental legislation (including the phosphate legislation).

Furthermore, economic trends in different regions and currency fluctuations represent potential risks. In terms of exchange rates, FrieslandCampina's results are mostly dependent on the United States Dollar, the Chinese Yuan, the Hong Kong Dollar and the Nigerian Naira. The company hedges foreign currency positions. However, the opportunities to do this in Nigeria are minimal.

Finally, geopolitical trends (for example, within the European Union and trade relations with the United States) and increasing government regulations and requirements could have a significant influence on market and sales trends.

Outlook

The expectation is that in the second half of 2018, global milk production will once again increase due to the relatively high milk prices. The long-term drought in Northern Europe has a negative effect on feed production. This may put the growth of milk supply somewhat under pressure in the fourth quarter. The demand for dairy on the global market will probably remain high, thanks to strong economic growth in countries that import dairy products, such as China, and countries in Southeast Asia and the Middle East. The high oil prices throughout the world show that there is economic growth. On this basis it is safe to assume that the demand for dairy products will continue to increase.

Negative weather conditions, political developments in the European Union and potential problems in international world trade, such as creating trade barriers or higher import duties in key importing countries, could put milk prices under pressure.

FrieslandCampina does not make any specific pronouncements concerning the company's result for the full year 2018.

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 2018, and of the result over the first six months of 2018 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 2018 and their impact on the half-year financial statements and the key risks and uncertainties for the following six months of 2018.

Members of the Supervisory Board

Frans Keurentjes, Angelique Huijben-Pijnenburg and Sandra Addink-Berendsen were reappointed as members of the Board of Zuivelcoöperatie FrieslandCampina U.A. This decision was taken in the meeting of 12 June 2018 of the Members' Council of Zuivelcoöperatie FrieslandCampina U.A. The reappointments will go into effect on 18 December 2018 for a period of four years and also apply to their positions as members of the Supervisory Board of Royal FrieslandCampina N.V.

Executive Board

Hein (H.M.A.) Schumacher

Chief Executive Officer

Jaska (J.M.) de Bakker

Chief Financial Officer

Amersfoort, the Netherlands, 24 August 2018

As of 1 January 2018, FrieslandCampina implemented a new organisation structure bringing about a more nimble company. There are four business groups operating worldwide. The presentation of the comparative figures for 2017 have been adjusted to reflect the new organisation structure.

Consumer Dairy

This business group is responsible for consumer products in Europe, Asia, the Middle East and Africa.

- Volume, revenue and the operating profit slightly declined in comparison to the first half of 2017.
- Adjusted for currency effects the operating profit was at the same level as last year.
- Volume in Europe is under pressure, particularly in Germany.
- For efficiency reasons the production of whipped cream cans produced by the company France Crème in Saint-Paul-en-Jarez in France has been relocated to the facility in Lummen, Belgium.
- Positive volume trends in the Middle East and Africa. Production in Nigeria is back to the level prior to the fire at the production facility in January 2017.
- Minor volume growth in Asia.
- Campina Biologisch was launched in the Netherlands. A line of fresh organic dairy products in new climate-neutral packaging made of organic materials.
- In Pakistan, the brands Olper's and Tarang were re-launched to restore revenue and profitability.

Specialised Nutrition

This business group is responsible for special nutrition, such as infant, sports and elderly nutrition.

- Revenue and operating profit are under pressure due to lower volumes and negative currency results.
- The infant nutrition market as a whole is under pressure.
- Revenue from infant nutrition under pressure in China due to decreasing volumes of Friso Gold. This loss was partially offset by the strong growth of Friso Prestige.
- The infant nutrition produced by Friesland Huishan Dairy under the brand name Dutch Lady is growing.
- Friso continues to be the market leader in infant nutrition in Hong Kong. This is a dynamic market with severe price competition, which is causing pressure on results.
- Friso is growing and is strengthening its position in infant nutrition in Indonesia, Malaysia and Vietnam.
- Vifit Sport has been expanded with fresh quark and drinks in its test market the Netherlands.

Results	2018 first half-year	2017 first half-year	Δ%	2017 year
millions of euros, unless stated otherwise				
Revenue	2,660	2,821	-5.7	5,574
Revenue before currency translation effects	2,836	2,821	0.5	
Operating profit ¹	▼			
Price effect on revenue ¹	▲			
Volume trend (percentage) ¹	-3.1			
Volume-mix effect on revenue (percentage) ¹	-1.0			

¹ compared to first half-year of 2017

Results	2018 first half-year	2017 first half-year	Δ%	2017 year
millions of euros, unless stated otherwise				
Revenue	590	661	-10.7	1,302
Revenue before currency translation effects	634	661	-4.1	
Operating profit ¹	▼			
Price effect on revenue ¹	▼			
Volume trend (percentage) ¹	-5.4			
Volume-mix effect on revenue (percentage) ¹	-1.6			

¹ compared to first half-year of 2017

Ingredients

This business group focuses on the production and sales of ingredients for the business-to-business market.

- Volume and result trend stable.
- Lower revenue due to price adjustments.
- Challenging market conditions, particularly in Southeast Asia and Russia have resulted in lower volumes and prices for animal feed producer FrieslandCampina Nutrifeed.
- FrieslandCampina DMV is showing a positive trend in terms of volume and improved margins, particularly in its sports nutrition line. The market conditions for sports nutrition in the United States are challenging.
- FrieslandCampina Medical is continuing its positive trend and is strengthening relationships with important customers in the medical market segment.
- FrieslandCampina DOMO, producer of ingredients for infant nutrition, is experiencing volume growth and improvement in margins due to mix effect and focus on costs.
- At FrieslandCampina Kievit, producer of creamers, volume is under pressure. The focus on added value is resulting in improved commercial margins.

Dairy Essentials

This business group focuses on the production and sale of basic dairy products, such as cheese, butter and milk powder for the food industry, wholesale markets and on private labels for the retail sector. The business group is also responsible for optimising milk processing.

- Revenue and operating profit are under pressure due to low basic dairy prices. The difference in comparison to the guaranteed price paid for members' milk is significantly depressing the result.
- Improvement in result in the second quarter due to recovery of basic dairy prices, particularly an increase in butter quotations and cheese prices.
- The demand for and volume of VLOG (non-GMO) cheese on the German market is increasing.
- Limited sale of milk on the spot market necessary.
- For efficiency reasons the cheese packaging activities in Sénas, France will be relocated to Genk in Belgium and Leerdam in the Netherlands.

Results	2018 first half-year	2017 first half-year	Δ%	2017 year
millions of euros, unless stated otherwise				
Revenue	851	893	-4.7	1,793
Revenue before currency translation effects	870	893	-2.6	
Operating profit ¹	=			
Price effect on revenue ¹	▼			
Volume trend (percentage) ¹	-0.4			
Volume-mix effect on revenue (percentage) ¹	1.8			

¹ compared to first half-year of 2017

Results	2018 first half-year	2017 first half-year	Δ%	2017 year
millions of euros, unless stated otherwise				
Revenue	1,614	1,639	-1.5	3,349
Operating profit ¹	▼			
Price effect on revenue ¹	▼			
Volume trend (percentage) ¹	-6.8			
Volume-mix effect on revenue (percentage) ¹	0.1			

¹ compared to first half-year of 2017

Condensed consolidated income statement

In millions of euros	first half-year 2018	first half-year 2017
Revenue	5,721	6,072
Cost of goods sold	-4,831	-5,057
Gross profit	890	1,015
Advertising and promotion costs	-260	-272
Selling and general administrative costs	-430	-444
Other operating costs and income	-23	-24
Operating profit	177	275
Finance income and costs	-23	-30
Share of profit of joint ventures and associates, net of tax	10	8
Profit before tax	164	253
Income tax	-55	-91
Profit for the period	109	162
Profit attributable to:		
• holders of member bonds	23	21
• provider of Cooperative loan	4	4
• shareholder	41	103
Shareholder and other providers of capital	68	128
Owners of non-controlling interests	41	34
Profit for the period	109	162

Condensed consolidated statement of comprehensive income

In millions of euros	first half-year 2018	first half-year 2017
Profit for the period	109	162
Items that will or may be reclassified to the income statement:		
Effective portion of cash flow hedges, net of tax	-4	10
Currency translation differences, net of tax	-39	-116
Change in fair value of available-for-sale financial assets, 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	-1
	-42	-134
Items that will never be reclassified to the income statement:		
Remeasurement of liabilities (assets) under defined benefit plans, net of tax		11
		11
Other comprehensive income, net of tax	-42	-123
Total comprehensive income for the period	67	39
Total comprehensive income attributable to:		
• shareholder and other providers of capital	34	24
• owners of non-controlling interests	33	15

Condensed consolidated statement of financial position

In millions of euros	30 June 2018	31 December 2017
Assets		
Property, plant and equipment	3,239	3,208
Intangible assets	1,709	1,757
Biological assets	7	8
Deferred tax assets	272	301
Joint ventures and associates	119	123
Employee benefits	9	10
Other financial assets	40	42
Non-current assets	5,395	5,449
Inventories	1,500	1,518
Receivables	1,607	1,719
Cash and cash equivalents	453	356
Assets held for sale	3	4
Current assets	3,563	3,597
Total assets	8,958	9,046
Equity		
Issued capital	370	370
Retained earnings and other reserves	910	917
Equity attributable to shareholder	1,280	1,287
Member bonds	1,580	1,596
Cooperative loan	291	295
Equity attributable to shareholder and other providers of capital	3,151	3,178
Owners of non-controlling interests	343	334
Total equity	3,494	3,512
Liabilities		
Employee benefits	442	475
Deferred tax liabilities	135	181
Interest-bearing borrowings	1,062	999
Other financial liabilities	117	123
Non-current liabilities	1,756	1,778
Interest-bearing borrowings	818	661
Other current liabilities	2,890	3,095
Current liabilities	3,708	3,756
Total liabilities	5,464	5,534
Total equity and liabilities	8,958	9,046

Condensed consolidated statement of cash flows

In millions of euros	first half-year 2018	first half-year 2017
Profit before tax	164	253
Depreciation of plant and equipment and amortisation of intangible assets	179	184
Movements in inventories, receivables and liabilities	-54	-350
Other operating activities	-103	-58
Net cash flows from operating activities	186	29
Investments in property, plant and equipment and intangible assets	-234	-250
Disposals of property, plant and equipment, intangible assets and assets held for sale	5	3
Received repayments and loans issued	15	-19
Acquisitions, net of cash and cash equivalents	-2	-7
Divestments of securities		31
Net cash flows used in investing activities	-216	-242
Investments in non-controlling interests	-2	
Dividends paid to owners of non-controlling interests	-43	-71
Interest payment to holders of member bonds	-36	-33
Interest-bearing borrowings drawn	752	929
Repayment of interest-bearing borrowings	-603	-699
Settlement of derivatives and other	2	-4
Net cash flows used in financing activities	70	122
Net cash flow	40	-91
Cash and cash equivalents at 1 January ¹	193	354
Net cash flow	40	-91
Currency translation differences on cash and cash equivalents	1	-27
Cash and cash equivalents at 30 June¹	234	236

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

Condensed consolidated statement of changes in equity

In millions of euros	2018			2017		
	Equity ¹	Non-controlling interests	Total	Equity ¹	Non-controlling interests	Total
At 1 January	3,178	334	3,512	3,169	446	3,615
Total comprehensive income for the period	34	33	67	24	15	39
Transactions with shareholder and other providers of capital recognised directly in equity:						
• dividends paid to owners of non-controlling interests		-43	-43		-71	-71
• interest paid to provider of Cooperative loan	-7		-7	-8		-8
• interest paid to holders of member bonds	-42		-42	-39		-39
• pro forma issuance of member bonds	9		9	24		24
Total transactions with shareholder and other providers of capital	-40	-43	-83	-23	-71	-94
Transactions in ownership of interests in subsidiaries:						
• transactions with owners of non-controlling interests	-21	19	-2			
Total transactions in ownership of interests in subsidiaries	-21	19	-2			
At 30 June	3,151	343	3,494	3,170	390	3,560

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, No. 11057544. The consolidated half-year figures for the period ending 30 June 2018 comprise Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

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

The consolidated half-year figures 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 2017 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 2017 financial statements.

These are the first consolidated half-year figures to which IFRS 15 and IFRS 9 have been applied. A number of other IFRS standards were changed effective from 1 January 2018. However, these changed standards do not affect the consolidated half-year financial statements of FrieslandCampina.

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 potential impact of applying IFRS 9 on FrieslandCampina. IFRS 9 has no significant impact on the classification and measurement of the financial assets currently held. However, gains and losses realised on the sale of securities will no longer be reclassified to the consolidated income statement but will instead be reclassified from the fair value reserve to retained earnings within equity.

The amendment of IFRS 9 in relation to financial liabilities has no impact on FrieslandCampina.

FrieslandCampina has concluded that its current hedge relationships also qualify for hedge accounting under the new rules. Changes in the fair value of the time value of options will be recognised in equity.

The new 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. For FrieslandCampina the provision for doubtful trade receivables has not significantly increased. For more information and an overview with the classifications we refer to the paragraph 'Financial instruments' starting on page 20.

FrieslandCampina applies IFRS 9 from 1 January 2018, the comparative figures over 2017 have not been adjusted.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 has become effective on 1 January 2018. This standard provides an elaborate framework to determine whether, how much and when revenue must be recognised.

FrieslandCampina has adopted this standard applying the modified retrospective method. This means that the cumulative effect of IFRS 15 has been recorded as at 1 January 2018 without restating the comparative figures.

The characteristic of revenue is that it is realised at a single point in time, namely at the time that it is convincingly shown that control over the goods and the benefits of owning the goods have been transferred to the customer.

The impact on FrieslandCampina is insignificant and is primarily related to additional disclosure requirements.

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 2017 financial statements. During the first half-year of 2018 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.

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.

Financial risk management

The key objectives and procedures of financial risk management within FrieslandCampina are consistent with the objectives and procedures disclosed in the 2017 consolidated financial statements.

Seasonal influences

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

Revenue

	first half-year 2018		first half-year 2017	
Revenue by geographical location of customers				
		%		%
The Netherlands	1,403	25	1,409	23
Germany	545	10	575	9
Rest of Europe	1,397	24	1,306	22
Asia and Oceania	1,875	33	2,224	36
Africa	310	5	335	6
North and South America	191	3	223	4
	5,721	100	6,072	100

Revenue primarily consists of the sale of goods.

Operating expenses

The cost of goods sold includes milk payments to member dairy farmers of EUR 1,982 million (first half-year 2017: EUR 2,109 million).

Other operating costs and income

The other operating costs include restructuring costs for a total of EUR 20 million, particularly in relation to the closure of the production facilities in Saint-Paul-and-Jarez and Sénas (France). Due to the decision to keep the production facility in Rijkevoort (The Netherlands) open, a gain of EUR 7 million is recognised as other operating income in relation to the partial reversal of an impairment.

Finance income and costs

In the first half of 2018, a negative result of EUR 3 million concerning the remeasurement of receivables and payables in foreign currencies as well as the realised results from financial derivatives were included under finance income and costs. In the first half of 2017 this was a negative result of EUR 10 million. The net interest expense amounts to EUR 16 million in the first half of 2018 (first half-year 2017: EUR 15 million).

Income tax expense

The tax expense amounts to EUR 55 million (first half-year 2017: EUR 91 million). The decrease is in part due to lower profits. The lower effective tax rate in the first half of 2018 of 33.6% in comparison to the effective tax rate in the first half of 2017 of 35.8% is in part due to the positive impact of changes in tax rates abroad.

Property, plant and equipment

The movements in property, plant and equipment during the first half-year of 2018 can be specified as follows:

Carrying amount at 1 January	3,208
Additions	178
Disposals	-1
Currency translation differences	-11
Depreciation	-143
Impairments	-2
Reversal of impairments	10
Carrying amount at 30 June 2018	3,239

The additions of EUR 178 million relate primarily to expansion of production capacity and replacement investments in the Netherlands (first half-year of 2017: EUR 200 million).

Intangible assets

The movements in intangible assets during the first half-year of 2018 can be specified as follows:

Carrying amount at 1 January	1,757
Additions	24
Currency translation differences	-36
Amortisation	-36
Carrying amount at 30 June 2018	1,709

In 2010 FrieslandCampina started a global ICT-standardisation programme. During the first half-year of 2018 an amount of EUR 12 million was capitalized (2017: EUR 18 million) and an amount of EUR 16 million was amortised (2017: EUR 13 million). During 2012 the system went live for the first group of operating companies. Subsequently the implementation was rolled-out to other operating companies. The programme 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 of goodwill impairment. 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.

Effective from 1 January 2018, FrieslandCampina's business group structure was adjusted. For a description of the business groups see page 9 of the half-year report. This adjustment to the management structure and the reporting structure to the Executive Board has caused the goodwill allocation to be changed.

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

	30 June 2018	assumptions 2018		
	Goodwill	% Growth rate terminal value	% Average growth rate gross profit	% Pre-tax discount rate
Consumer Dairy	707	3.0	9	8
Specialised Nutrition	227	3.0	7	8
Ingredients	161	2.5	10	8
Dairy Essentials	14	1.5	3	5
	1,109			

	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
	1,126			

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 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 2018 prognoses and the long-term plans until 2021. A compensation for the cooperative role the business group Dairy Essentials (in 2017: 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 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 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 71 million of the inventories of finished goods and commodities is valued at net realisable value (end of 2017: EUR 300 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 2018 amounts to EUR 30 million (end of 2017: EUR 71 million).

Interest-bearing borrowings

In 2017, FrieslandCampina agreed a credit facility with a syndicate of financial institutions as the result of obtaining a public credit rating. This facility amounts to EUR 1 billion and has a 5-year term. An amount of EUR 20 million was drawn down from this facility as at 30 June 2018 (year-end 2017: EUR 50 million) and is entirely classified as current.

In June 2016, FrieslandCampina agreed a loan capped at EUR 150 million with the European Investment Bank (EIB). This loan will be used for research into and development of new products. The loan is subject to a 7 or 10-year term from the date FrieslandCampina starts making use of this facility. The interest rate will be determined at that time and the capitalised issuance costs will be amortised over the duration of the loan. The remaining portion of this loan in the amount of EUR 50 million was drawn down in the first half of 2018.

In 2017 FrieslandCampina issued an Euro Commercial Paper (ECP). The maximum term of the ECP issued is 12 months. As at 30 June 2018, the withdrawals under the ECP programme were EUR 416 million.

Financial instruments

Classification and measurement of financial instruments under IFRS 9 in comparison to IAS 39

Under IFRS 9, the classification of financial liabilities as applied under IAS 39 largely remains unchanged. In relation to financial assets, the classifications used 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 under IFRS 9 classified as 'Fair value-hedge accounting instruments' or as 'Mandatorily at fair value through profit or loss'.

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

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.

30 June 2018

	Fair value - hedge accounting instru- ments	Manda- torily at FVTPL	FVOCI - equity instru- ments	Financial assets at amortised cost	Other financial liabilities	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets not measured at fair value										
Loans issued - fixed rate				32		32		35		35
Loans issued - variable rate				6		6				
Non-current receivables				2		2				
Trade and other receivables				1,607		1,607				
Cash and cash equivalents				453		453				
				2,100		2,100				
Financial assets measured at fair value										
Hedging derivatives	17	12				29		29		29
Securities			1			1			1	1
	17	12	1			30				
Financial liabilities not measured at fair value										
Interest-bearing borrowings - fixed rate					949	949		970		970
Interest-bearing borrowings - variable rate					927	927		928		928
Trade and other payables					2,623	2,623				
					4,499	4,499				
Financial liabilities measured at fair value										
Hedging derivatives	23	6				29		29		29
Put option liability		78				78			78	78
	23	84				107				

The fair value of the interest-bearing borrowings with a fixed interest rate was calculated based on a weighted average interest rate of 2.2% (end of 2017: 2.7%). The fair value of the loans issued with a fixed interest rate has been calculated using a weighted average interest rate of 3.4% (end of 2017: 3.4%).

Securities

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

Put option liabilities

FrieslandCampina issued a put option to IFC and FMO with respect to the shares held in the Dutch legal entity holding 51% of the shares in Engro Foods 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 Engro Foods' profit before interest, taxes, and depreciation and amortisation. The shares are subdivided into type A and type B shares, whereby a cap and a floor on the return of these shares has been agreed upon 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 valuation method for this liability is classified as Level 3 due to the sensitivity to Engro Foods' result.

If the expected profit before interest, taxes, and depreciation and amortisation of Engro Foods would have been 10% higher, then FrieslandCampina's result over the first half-year of 2018 would have been EUR 8 million lower due to the remeasurement of the put option liability.

Movements and transfers

During the first half-year of 2018 movements of the financial instruments classified as Level 3 were as follows:

	Put option liabilities	Securities
Carrying amount at 1 January	76	1
Finance costs	2	
Carrying amount at 30 June 2018	78	1

During the first half-year of 2018 there were no transfers from or to levels 1, 2 or 3.

Commitments and contingencies

Commitments and contingencies do not materially differ from the commitments and contingencies included in the 2017 consolidated financial statements, with the exception of:

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 and carefully evaluates the probability that a tax proceeding will result in a tax liability in the form of a cash outflow, and 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 30 June 2018 that are being investigated by tax authorities, at a total of EUR 64 million (year-end 2017: EUR 25 million), of which the largest part relates to the treatment of sales tax in Pakistan.

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 2017 consolidated financial statements.

Subsequent events

There were no subsequent events that have to be included in the 2018 half-year report.

Amersfoort (the Netherlands), 24 August 2018



Every day Royal FrieslandCampina provides millions of consumers all over the world with dairy products that are rich in valuable nutrients from milk. With an annual revenue of 12 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 semi-finished products to manufacturers of infant nutrition, the food industry and the pharmaceutical sector around the world.

FrieslandCampina has branch offices in 34 countries and at year-end 2017 employed a total of 23,675 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 four market-oriented business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials.

The Company is fully owned by Zuivelcoöperatie FrieslandCampina U.A, with 18,645 member dairy farmers in the Netherlands, Germany and Belgium, is one of the world's largest dairy cooperatives.

Royal FrieslandCampina N.V.

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