FrieslandCampina
nourishing by nature

Annual Report 2017

Royal FrieslandCampina N.V.

Explanatory note
This Annual Report presents the financial results and the key developments of Royal FrieslandCampina N.V. for the year 2017.

This year, for the first time, the key developments and results for 2017 are presented in the FrieslandCampina Annual Overview. The objective of the Annual Overview is to highlight the company's key developments in a straightforward and transparent way. The structure of the Annual Report is more extensive and complies with current corporate governance rules. The FrieslandCampina Annual Overview is available on the FrieslandCampina website and is also available in print.

The financial statements are drawn up as at 31 December 2017. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards as adopted in the European Union (EU-IFRS) and, insofar as applicable, in accordance with Part 9 Book 2 of the Dutch Civil Code.

The price for milk supplied in 2017 by the members of Zuivelcoöperatie FrieslandCampina U.A. was determined on the basis of the FrieslandCampina 2017-2019 milk payment policy. All amounts in this Annual Report are in euros, unless stated otherwise.

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

This Annual Report is a translation of the Dutch version. In case of discrepancies between these versions, the Dutch text prevails.

The Annual Report and the Annual Overview of Royal FrieslandCampina N.V. is also available on its website www.frieslandcampina.com.

The following terms, among others, are used in this Annual Report:
- Royal FrieslandCampina N.V. (the 'Company' or 'FrieslandCampina')
- Zuivelcoöperatie FrieslandCampina U.A. (the 'Cooperative')
- Supervisory Board of the Company (the 'Supervisory Board')
- Executive Board of the Company (the 'Executive Board')

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Foreword

Dear reader,

2017 was a memorable and challenging year for FrieslandCampina in more ways than one. After two years of low milk prices, the milk price rose by 24.0 percent in 2017 compared to 2016, to 40.01 euros per 100 kilos of milk. This is good news for member dairy farmers. The revenue of Royal FrieslandCampina N.V. increased by 10.1 percent to 12.1 billion euros in 2017. Profit decreased by 37.3 percent to 227 million euros. This was the result of a write-off of assets in China and Germany, and restructuring costs. In addition, volume and profit developments were under pressure, especially in Europe. This is in part due to the higher milk price and the increase in the costs of other raw materials and packaging costs.

Versatility and competitiveness

The dairy market is characterised by substantial fluctuations. Minor changes in conditions and sentiment have a major impact on the supply and demand of dairy products, and consequently on prices. This volatility is expected to be structural. As a player on the world market, this demands greater versatility and competitiveness on the part of FrieslandCampina. Furthermore, customers and consumers expact innovation on the dairy shop shelves and we are seeing that especially local players are anticipating this need. The ability to adjust more quickly to new conditions and to be leading in innovation is a necessity in enabling the Company to operate successfully over the long term.

New foundation for acceleration

This is why we took measures in 2017. For example, the organisation structure has been simplified to be able to react faster and 'win in the market'. The number of jobs at the central office is declining. Employee autonomy to take decisions in the market in which they operate is increasing. And we are intensifying our focus on cost reduction. This makes FrieslandCampina better able to anticipate consumer and customer demand. Our purpose *nourishing by nature* provides the framework for this: better nutrition for the world's consumers, a good living for our farmers, now and for generations to come. Three robust pillars that operate as the basis on which FrieslandCampina develops and markets its products.

Sustainability

Nourishing by nature also means that FrieslandCampina wants to be leading in our sector in achieving the Sustainable Development Goals of the United Nations. We are improving our sustainability performance across the entire chain – from dairy farms to production facilities to logistics – and are showing tangible results. Together with member dairy farmers, we must continue to seek a healthy balance between their supply of milk, our processing capacity and the demand for dairy products by consumers and customers. Our challenge for 2018 is to define a sustainable and structural solution to achieve this.

A word of thanks

The world is rapidly changing. That makes us curious and ambitious. We do not want to watch from the sidelines, we want to participate and make a contribution. This requires constant effort from everyone involved in the Company. I would like to thank all FrieslandCampina employees on behalf of the Executive Board. Your inspiration and energy are indispensable to making FrieslandCampina an even more successful company that makes a contribution to society. In conclusion, I would like to thank Roelof Joosten for his unabating efforts on behalf of the Company over the past fourteen years, including the last few years as CEO. During these years he has made an important contribution to the success of FrieslandCampina.

Hein Schumacher
Chief Executive Officer
Royal FrieslandCampina N.V.

Amersfoort (Netherlands), 16 February 2018

Key figures

millions of euros, unless stated otherwise	2017	2016	Δ%
Results			
Revenue	12,110	11,001	10.1
Revenue before currency translation effects	12,313	11,001	11.9
Operating profit	444	563	-21.1
Operating profit before currency translation effects	480	563	-14.7
Profit	227	362	-37.3
Profit before currency translation effects	243	362	-32.9
Operating profit as a % of revenue	3.7	5.1	
Balance Sheet			
Balance sheet total	9,046	9,318	-2.9
Equity attributable to the shareholder and other providers of capital	3,178	3,169	0.3
Equity as a % of the balance sheet total	35.1%	34.0%	
Buffer capital as a % of the balance sheet total [1]	14.2%	14.0%	
Net debt [2]	1,400	1,225	14.3
Cash Flow			
Net cash flow from operating activities	418	850	-50.8
Net cash flow used in investment activities	-414	-955	56.6
Investments	531	518	2.5
Total compensation member dairy farmers	4,346	3,544	22.6
Value creation for member dairy farmers in euros per 100 kilos of milk (excluding VAT, at 3.47% protein, 4.41% fat and 4.51% lactose)			
Guaranteed price	37.96	28.38	33.8
Performance premium	1.03	2.19	
Meadow milk premium [3]	0.60	0.29	
Special supplements [4]	0.12	0.15	
Cash price	39.71	31.01	28.1
Issue of member bonds	0.30	1.25	
Milk price	40.01	32.26	24.0
Additional payments [5]	0.04	0.22	
Interest on member bonds	0.42	0.41	
Retained earnings	1.33	2.12	
Performance price	41.80	35.01	19.4
Other Information			
Employees (average number of FTEs) [6]	23,675	21,927	8.0
Number of accidents (per 200,000 hours worked)	0.55	0.78	
Number of member dairy farms at year-end	12,707	13,300	-4.5
Number of member dairy farmers at year-end	18,645	18,906	-1.4
Total milk processed (millions of kg) [6]	11,433	11,231	1.8
Milk supplied by member dairy farmers (millions of kg)	10,716	10,774	-0.5

1 Buffer capital is the equity attributable to the shareholder.
2 The net debt concerns current and non-current interest-bearing borrowings, payables to Zuivelcoöperatie FrieslandCampina U.A. less the cash and cash equivalents at the Company's free disposal.
3 Dairy farmers applying pasturing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2017. An amount of 1.00 euros per 100 kilos of meadow milk is paid from the 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.
4 Special supplements concern the total amount of payments 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 (49.10 euros) and the guaranteed price (37.96 euros) per 100 kilos of milk. On average on all FrieslandCampina members milk, this amounts to 0.12 euro per 100 kilos of milk.
5 In 2017, 4.8 million euros were paid out (0.04 euro per 100 kilos of milk) in the context of the temporary 10-cent measure. In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measures.
6 Increase in employees and total amount of milk processed is due to adding Engro Foods, Pakistan.

About FrieslandCampina

route2020 strategy: sustainable growth and value creation

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

Purpose
nourishing by nature

Better nutrition
The global population is expected to grow from 7.6 billion people in 2017 to over 9.8 billion by 2050. This, together with the increase in wealth, will result in an increased demand for food. With its dairy products, FrieslandCampina can contribute towards feeding the world's population both in the long and short term. FrieslandCampina will focus on improving its products' recipes and on ensuring dairy products remain affordable and thus relevant for all income groups. This is in line with the United Nations' Sustainable Development Goals 'Good nutrition and sustainable food production' (SDG 2, 3).

A good living for our farmers
FrieslandCampina's goal is to optimise milk valorisation, so as to maximise its contribution to the incomes of dairy farmers and the continuity of dairy farms for many generations to come. FrieslandCampina strives to pay one of the highest milk prices in Northwest Europe. By doing so FrieslandCampina remains an attractive company for member dairy farmers. In a number of countries in Asia, Africa and Eastern Europe FrieslandCampina supports local dairy farmers in improving their farm management and the quality of their milk. This is in line with the United Nations' Sustainable Development Goal 'Decent work and economic growth' (SDG 8).

Now and for generations to come
FrieslandCampina also focuses on future generations. This is why FrieslandCampina invests in sustainable long-term growth and in the financial health of the Company and the Cooperative. The aim is to achieve climate-neutral growth and reduce the use of scarce natural resources such as water, raw materials and fossil fuels. This is in line with the United Nations' Sustainable Development Goals 'Affordable and clean energy' (SDG 7) and 'Responsible consumption and production' (SDG 12).

Aspiration

FrieslandCampina's long-term aspirations are:
- to achieve around 5 percent annual volume growth up to 2020 in selected priority product-market combinations;
- to efficiently process and valorise around 10 billion kilos of member dairy farmers' milk;
- to reach 15 billion euros in revenue by 2020;
- to be financially healthy and in harmony with nature and society in the short term and in 20 years' time, in order to create value for following generations of dairy farmers as well.

Leverage the unique milk chain: from grass to glass

During its more than 140 years' history FrieslandCampina has built up strong market and brand positions. Recognisable brands and discerning quality are our foundation. The unique Dutch milk chain is a valuable concept for continuing to bind customers and consumers to FrieslandCampina's products and brands. Frisian Flag, Dutch Lady, Peak, Campina, Chocomel and Frico are examples of brands that have existed for generations. FrieslandCampina wants to increase the consumer demand for Dutch dairy products throughout the world. FrieslandCampina accomplishes this in various ways, such as the from grass to

The Sustainable Development Goals of the United Nations
The United Nations have developed a series of Sustainable Development Goals (SDGs): seventeen ambitious goals relating to topics such as responsible production and consumption, climate, sustainable communities, health and well-being, and efforts to fight poverty and starvation. These development goals have been endorsed by 193 countries and give governments and the business sector a roadmap for a more just and sustainable future. The FrieslandCampina *route2020* strategy and the *nourishing by nature* sustainability policy are in line with the SDG's of the United Nations.

glass concept, and by investing even more in the appeal of Dutch dairy, for example by preserving the visibility of cows in the Dutch landscape.

Generate the highest value from milk

FrieslandCampina aims to generate more revenue from the milk supplied by focusing on combinations of primary products and by-products that deliver the most value. Improving the results on the least profitable billions of kilos of milk will require more effort over the coming years.

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

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

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

FrieslandCampina is globally active with a wide range of products. Every market situation is different and FrieslandCampina focuses on a limited number of specific product-market combinations – also for the long term. In selecting these combinations we consider the following factors:

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

Based on the above criteria, three groups of product-market combinations have been selected as a focus for FrieslandCampina:

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

Highly engaged, capable people effectively working together

FrieslandCampina has highly engaged and motivated employees. They are the foundation of FrieslandCampina's success. Worldwide there is a strong feeling of mutual commitment. Considerable attention is being paid to the continuous improvement of skills and ways of working.

A number of specific areas is important for the successful roll-out of the updated *route2020* strategy:

- improving the capabilities that are key for being successful in the market, including innovation, commercial performance and further digitalisation;
- reducing costs to enable investment in long-term growth, for example through supply chain and overhead efficiencies;
- continuously working on improving the quality of products and the safety of employees;
- appropriate business conduct in line with the Compass Code of Conduct, based on the principles of integrity, respect and transparency.

Report of the Executive Board

Developments and Results

Higher revenue, lower profit, significant increase in milk price

One-off costs reduce profit in the second half of the year

- Revenue increased by 10.1 percent to 12.1 billion euros
- Profit decreased by 37.3 percent to 227 million euros
- Positive volume developments in consumer products in Southeast Asia, China and Africa and growth in the sale of caseinates and ingredients for the pharmaceutical industry
- Operating profit under pressure due to one-off costs, negative currency translation effects and pressure on margin due to increase in raw material prices
- Simplified organisational structure effective from 1 January 2018
- Milk price increased by 24.0 percent to 40.01 euros per 100 kilos of milk
- Milk supply stable at 10,716 million kilos (-0.5 percent)

Key Figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	**12,110**	11,001	10.1
Revenue before currency translation effects	**12,313**	11,001	11.9
Operating profit	**444**	563	-21.1
Operating profit before currency translation effects	**480**	563	-14.7
Profit	**227**	362	-37.3
Profit before currency translation effects	**243**	362	-32.9
Operating profit as a % of revenue	**3.7**	5.1	
Net cash flow from operating activities	**418**	850	-50.8
Value creation in euros per 100 kg milk	**1.33**	3.44	-61.3
Milk price in euros per 100 kg milk	**40.01**	32.26	24.0
Milk supplied by member dairy farmers (millions of kg)	**10,716**	10,774	-0.5

The revenue of Royal FrieslandCampina N.V. increased by 10.1 percent to 12.1 billion euros in 2017. This is primarily due to higher sales prices and the addition of the revenue of Engro Foods in Pakistan. Profit decreased by 37.3 percent to 227 million euros. Negative currency translation effects reduced the profit, which also declined due to write-offs in China and Germany and restructuring costs. The increase in revenue offsets the increased milk price, but this was not adequate to cover the increase in other raw material and packaging costs. This put the margins, particularly in consumer activities, under pressure.

The sales volumes of consumer products in Southeast Asia and of Friso infant nutrition in China show positive developments. The same applies to sales volumes in Africa in general. In addition, there is growth in the sales of caseinates and ingredients for the pharmaceutical industry.

The milk price for member dairy farmers increased significantly by 24.0 percent to 40.01 euros per 100 kilos of milk due to a higher guaranteed price for raw milk. The value creation (performance premium and issue of member bonds) decreased by 228 million euros to 142 million euros. Per 100 kilos of milk, the value creation decreased by 61.3 percent to 1.33 euros. The decrease in value creation is due to the adjustment of the profit appropriation and lower profit.

2017 dairy market: the year of butter

2017 was a year of recovery. Dairy prices rose considerably after two years of low milk prices. The 2017 dairy year will be especially remembered as the year of butter. Butter is tasty and is once again 'allowed'. The result, different from past years, is a shortage in milk fat and a surplus of milk protein. The market prices for cream and butter reached a record high in the third quarter, while the price for milk protein, in the form of skimmed milk powder, declined significantly. This caused a significant increase in the stocks of skimmed milk powder. This demonstrates the high volatility of the dairy market. Minor changes in conditions and sentiment can have a major impact on the supply and demand for dairy products, and consequently on prices.

Market developments during 2017
At the start of the year prices for dairy products were under pressure, because international demand was lagging with large stocks of dairy products throughout the world. This was a reason for the European Commission to institute a voluntary subsidised milk reduction programme. As a result the European milk supply declined by just over 1 percent during the first half of 2017. Due to this reduced milk supply and the rising demand for dairy products, prices slowly increased during the year. Not only within the European Union, but also on the global market. This drove many farmers to produce more milk. Milk production increased by about 4 percent and prices began to drop. When the European Commission announced it was not intending to support the market and instead planned to sell more skimmed milk powder from its intervention stocks on the market.

FrieslandCampina: key events in 2017

Simplified organisational structure
In August 2017, FrieslandCampina announced it was going to simplify its organisational structure by forming four global business groups: Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials.

The simplified structure enables FrieslandCampina to more decisively react to market developments and realise its strategic priorities. As a result, the management of the Company will also be adjusted effective 1 January 2018 by reducing the Executive Board and by appointing an Executive Leadership Team. The Executive Board consists of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). The Executive Leadership Team consists of the two members of the Executive Board, the presidents of the four business groups and of FrieslandCampina China, as well as the functional managers of Human Resources, Research & Development and Supply Chain. The new organisation went into effect on 1 January 2018.

Sale of Riedel activities and the interest in Synlait Milk
FrieslandCampina has decided to fully focus on its dairy portfolio. The sale of the fruit juices and fruit drinks activities of Riedel in the Netherlands and Belgium to the Dutch investment company, Standard Investment, on 10 November 2017 is consistent with this focus. Riedel is the producer of various products including Appelsientje, CoolBest, DubbelFrisss, DubbelDrank, Taksi and Extran. 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.

New start in Germany
On 23 November 2017, FrieslandCampina Germany announced a strategic reorientation. Priorities are the investments in the main brands Landliebe, Tuffi and Frico, combining all commercial activities in the Düsseldorf area, and other measures designed to increase profitability. In addition, it was decided to close the production facility in Gütersloh.

Interest in China Huishan Dairy
In 2015, FrieslandCampina took a 1.1-percent interest in China Huishan Dairy Holdings Company Ltd (China Huishan Dairy). This was part of the agreement at the start-up of the Friesland Huishan Dairy joint venture. The original investment in China Huishan Dairy amounted to 27 million euros. In 2017, China Huishan Dairy ran into financial problems, resulting in a full write-off of our interest.

Four global business groups
As from 1 January 2018, FrieslandCampina's new organisational structure increases the Company's agility. We have created four business groups with global operations:
- FrieslandCampina Consumer Dairy, consisting of the former business groups Consumer Products Europe, Middle East & Africa, Consumer Products Asia and the consumer-oriented activities of Cheese, Butter & Milkpowder.
- FrieslandCampina Specialised Nutrition focusing on special nutrition, such as infant, sports and elderly nutrition.
- FrieslandCampina Ingredients, focusing on the production and sale of ingredients for the business-to-business market.
- FrieslandCampina Dairy Essentials, focused on the production and sale of essential basic dairy products, such as cheese, butter and milk powder for the food industry and the retail sector. This business group is also responsible for optimising milk processing.

Friesland Huishan Dairy joint venture
China Huishan Dairy's financial problems negatively affected the development of the joint venture. The core of the operation continues and is focused on continuity. Due to the loss of our partner, the utilisation of the joint venture's plant declined and the roll-out of the business plan was delayed. This has resulted in the write-off of tangible assets in the amount of 36 million euros and the write-off of a deferred tax asset in the amount of 24 million euros. In spite of the delays incurred, FrieslandCampina has positive expectations of the long-term potential of Dutch Lady infant nutrition on China.

Further reinforcement of the organisation
In the context of the realisation of the *route2020* strategy, a number of projects are ongoing within FrieslandCampina that are designed to produce greater efficiency and cost reductions.

The Summit programme was started up in 2010 with the objective of standardising planning and information systems, processes and data for all FrieslandCampina operating companies. This programme is key in creating a more integrated networked organisation. The objective is to achieve more effective (logistics) planning and decision-making, as well as to work more efficiently by making better use of economies of scale. During 2017, Summit was successfully implemented in Thailand, the Netherlands (Maasdam and Rotterdam, and various cheese locations), Belgium and the United Kingdom. Overall, 70 percent of all employees involved are working on the new platform. The objective is to complete the programme in 2019.

The Finance for the Future Programme focuses on the creation of a more efficient and strengthened finance organisation. Part of the programme involves the concentration of operational finance activities in regional Financial Shared Services Centres. In 2017, a Financial Shared Services Centre was opened in Budapest (Hungary). Other centres have been established in Wolvega (Netherlands) and in Kuala Lumpur (Malaysia).

In WCOM Reloaded employees at various production facilities are working together on improvements. This is resulting in new standardised ways of working, changes in tasks and responsibilities, more efficient staffing levels, different shift compositions and adjustments to the organisation structure. The lead time of this programme at a location is approximately three years. At year-end 2017, the programme had been implemented at twenty locations.

Increased revenue
Revenue increased by 10.1 percent to 12.1 billion euros. This is primarily due to higher sales prices (+11.0 percent in comparison to 2016) and the addition of the revenue of Engro Foods in Pakistan. The increase in revenue is primarily due to the increase in the second half of the year of cheese prices and higher prices for butter and fat-related products. The volume mix effect is -1.2 percent due to lower volumes, particularly in Europe. Currency translation effects had a negative impact of -1.8 percent on revenue.

The volume of added value products, such as infant nutrition and dairy-based beverages, decreased by 1.9 percent (adjusted for the consolidation effect of Engro Foods Pakistan and the sale of the activities of Riedel). The volume of basic products rose in the first half of 2017, but declined in the second half of the year.

We are seeing positive volume developments in Indonesia (primarily condensed milk), Vietnam, China/Hong Kong (primarily with the Friso brand) and Africa. The same applies to the sale of caseinates and ingredients for the pharmaceutical industry. In addition, there was growth in the volume of dairy-based beverages in Southeast Asia. In Nigeria the revenue in euros was under significant pressure due to negative currency translation effects.

In 2017, 1.3 billion kilos of raw milk was sold directly. Via the Dutch Milk Foundation the same volume of milk was made available (0.6 billion kilos) as in 2016, and, in comparison to 2016, less milk was sold on the spot market.

Decrease in operating profit and profit
Operating profit in 2017 decreased by 119 million euros (-21.1 percent) to 444 million euros. This decline was caused by negative currency translation effects, one-off costs and failure to fully pass on the increased cost to higher sales prices.

Currency translation effects (particularly the Nigerian naira and the Chinese renminbi) had a negative impact of 36 million euros (-6.4 percent) on operating profit. Incidental costs reduced the operating profit further. These costs include costs for restructuring and write-offs of assets in Germany and China, and are only partly compensated by the gain on the sale of the Riedel activities. On balance these one-off items decrease the result by 90 million euros.

The cost of goods sold increased by 12.3 percent to 10,191 million euros. This is mainly due to the significantly higher price for raw milk and increased prices for other raw materials. As a result operating profit is under pressure because price increases can only be transferred in some part to the sales prices, or with a delay.

FrieslandCampina invested 536 million euros in advertising and promotions (2016: 540 million euros) to improve its brands.

The total compensation paid to member dairy farmers for their supplied milk increased by 22.6 percent in 2017 to 4,346 million euros (2016: 3,544 million euros). This is the highest total compensation paid to member dairy farmers since FrieslandCampina's inception. The increase is primarily due to the higher milk price.

Members supplied 0.5 percent less milk. In the context of the temporary 10-cent measure, 4.8 million euros was paid out (0.04 euro per 100 kilos of milk) in 2017. This was charged to the operating profit.

The operating profit of the Ingredients business group remained stable in comparison to the previous financial year. Due to a sharp decline in the last quarter, the profit of the Cheese, Butter & Milkpowder business group deteriorated somewhat. Operating profit was under pressure at Consumer Products Europe, Middle East & Africa, Consumer Products China and Consumer Products Asia. This was primarily caused by negative currency translation effects and the ability to only partially or with delay pass on the increased costs in higher sales prices.

The profit over 2017 decreased by 37.3 percent to 227 million euros (2016: 362 million euros). This is the result of a lower operating profit and a higher effective tax rate.

Profit appropriation

Of the 227 million euro profit in 2017, 31 million euros will be attributed to the non-controlling interests (2016: 80 million euros). The Executive Board proposes to add 143 million euros to retained earnings (2016: 229 million euros). The remaining profit will be appropriated as follows: 44 million euros will be reserved for interest payment to member bond holders (2016: 44 million euros) and 9 million euros will be reserved for interest payment on the Cooperative's loan to the Company (2016: 9 million euros).

Decrease in operating cash flow

Cash flow from operating activities decreased to 418 million euros (2016: 850 million euros) due to the increase in working capital and lower profit. In 2017, the cash outflow for investments and acquisitions amounted to 414 million euros (2016: 955 million euros). In 2017, 531 million euros was invested in production capacity, and in efficiency and quality improvements. Disposals of operations and assets resulted in a 96 million euro cash inflow.
The cash flow used in financing activities amounted to -116 million euros (2016: -227 million euros). This is the balance of the dividends paid to non-controlling interests, interest on member bonds, use of the credit facility, redemption of a contingent consideration and transactions with holders of put option liabilities. The balance of cash, cash equivalents and bank overdrafts decreased from 354 million euros (year-end 2016) to 193 million euros (year-end 2017).

Investments

In 2017, FrieslandCampina invested 531 million euros (2016: 518 million euros). The primary purpose of the investments was to process the increasing quantity of milk produced by member dairy farmers, creating maximum value by products that respond to the needs and wishes of customers and consumers. Investments were also made in further improving product quality, safety and efficiency. Since 2009, a total of 4.1 billion euros has been invested in fixed assets, of which over 70 percent in the Netherlands.

Financial position

The net debt amounted to 1,400 million euros as at 31 December 2017. This represents an increase of 175 million euro in comparison to year-end 2016.

The buffer capital (equity attributable to the shareholder) is lower due to currency translation differences of foreign subsidiaries and amounted to 1,287 million euros. As a percentage of the balance sheet total, the buffer capital increased from 14.0 to 14.2 percent.

The equity attributable to the shareholder and other providers of capital increased slightly to 3,178 million euros (2016: 3,169 million euros). This is due to the addition of retained earnings, offset by currency translation differences of foreign subsidiaries. Solvency, defined as the equity attributable to the shareholder and other providers of capital as a percentage of the balance sheet total, increased to 35.1 percent (2016: 34.0 percent) due to the lower balance sheet total.

As at 31 December 2017, the total equity, including non-controlling interests, amounted to 3,512 million euros (year-end 2016: 3,615 million euros).

Financing

FrieslandCampina makes use of loans from several financing groups (member dairy farmers, banks, investors and development banks). In the fall of 2017, FrieslandCampina received a public credit rating (BBB+) from Standard & Poor's and Fitch. Furthermore, a Euro Commercial Paper Programme (ECP Programme) was launched issuing short-term debt securities to international investors up to a maximum amount of 1 billion euros. The main component of the short-term financing was consequently shifted from bank loans to short-term debt securities.

The committed credit facility with a bank syndicate was adjusted to an amount of 1 billion euros with a minimum duration to October 2022. This committed credit facility is for general use and in addition is used as coverage for the ECP Programme. At the end of December 2017, borrowings under this facility amounted to 50 million euros. The main component of the outstanding long-term loans consists of 300 million euros in 'Green Bonds' (Green Schuldschein) and USD 563 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 and in August 2017, a total of USD 142 million and EUR 25 million were repaid in regular instalments to institutional investors.
As part of the acquisition of Engro Foods Pakistan, a loan was negotiated in November 2016 with International Finance Corporation (IFC) for a maximum of USD 100 million. This USD 100 million loan was withdrawn in January 2017. This US dollar liability was converted into a euro liability on the basis of a fixed interest rate cross-currency swap.

More money for members, but decreased value creation

Over 2017, a total of 142 million euros will be paid out to member dairy farmers (2016: 371 million euros) in addition to the guaranteed price. Of this, the performance premium is 110 million euros (1.03 euros per 100 kilos of milk, excluding VAT). The issue of member bonds over 2017 amounts to 32 million euros (0.30 euros per 100 kilos of milk, excluding VAT). In total, the performance premium and the issue of member bonds per 100 kilos of milk amount to 1.33 euros (2016: 3.44 euros), a decline of 61.3 percent. The decrease is due to the adjustment of the profit appropriation and lower profit.

The milk price for member dairy farmers over 2017 amounts to 40.01 euros per 100 kilos of milk, excluding VAT. Compared to 2016 (32.26 euros), this represents a 24.0 percent increase. The guaranteed price over 2017 was 37.96 euros per 100 kilos of milk, which is a 33.8 percent increase compared to 2016 (28.38 euros). The increase in the guaranteed price is the result of the higher milk prices of the reference companies. The compensation for special supplements (Landliebe, organic milk) amounts to 0.12 euros per 100 kilos of milk and the meadow milk premium amounts to 0.60 euros per 100 kilos of milk.

The FrieslandCampina performance price over 2017 amounts to 41.80 euros per 100 kilos of milk, excluding

Milk price methodology and profit appropriation 2017-2019

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

The amount of retained earnings and the performance premium is proportionate to FrieslandCampina's profit. For the years 2017-2019, 55 percent of the profit, based on the guaranteed price, as far as it attributes to the shareholder of the company, is added to the company's equity. 35 percent of the profit is paid out to member dairy farmers as a performance premium and 10 percent is paid out to member dairy farmers in the form of member bonds. The issue of member bonds is based on the value of the milk supplied in the relevant financial year.

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

VAT. Compared to 2016 (35.01 euros), this represents a 19.4 percent increase, which is due to the higher guaranteed price. The performance price includes the additional payment of 0.04 euros per 100 kilos of milk in the context of the temporary 10-cent measure. The addition to retained earnings in 2017 amounts to 1.33 euros per 100 kilos of milk compared to 2.12 euros in 2016.

The organic milk price for 2017 amounts to 51.43 euros, per 100 kilos of milk, excluding VAT (2016: 51.65 euros). The organic milk guaranteed price is 49.10 euros per 100 kilos of milk (2016: 47.71 euros) The performance premium and the issue of member bonds are the same as for regular milk. The organic milk guaranteed price is determined on the basis of supply and demand for organic milk on the Western European market.

In September 2017, an interim payment amounting to 1.17 euros per 100 kilos of milk was paid to the member dairy farmers. This is 75 percent of the pro forma performance premium over the first half year (0.59 euros per 100 kilos of milk over the entire year). The final settlement will take place in March 2018, based on FrieslandCampina's results for the financial year and the quantity of milk supplied by dairy farmers in 2017. The performance premium over 2017 amounts to 1.03 euros per 100 kilos of milk. This means that member dairy farmers will receive a performance premium of 0.44 euros per 100 kilos of milk in March 2018.

In total, the interest on member bonds stayed the same (44 million euros). On the one hand this is due to the increased number of bonds and on the other hand due to a lower interest rate. The interest rate over the period 1 January to 31 May 2017 was 3.031 percent. The interest rate over the period 1 June to 30 November 2017 was 2.996 percent, while the interest rate in the month of December 2017 was 2.976 percent (the interest rate on the 6-month Euribor was -0.274 percent for December 2017). The average interest payment per 100 kilos of member milk is 0.42 euro (2016: 0.41 euro).

Milk supply virtually stable

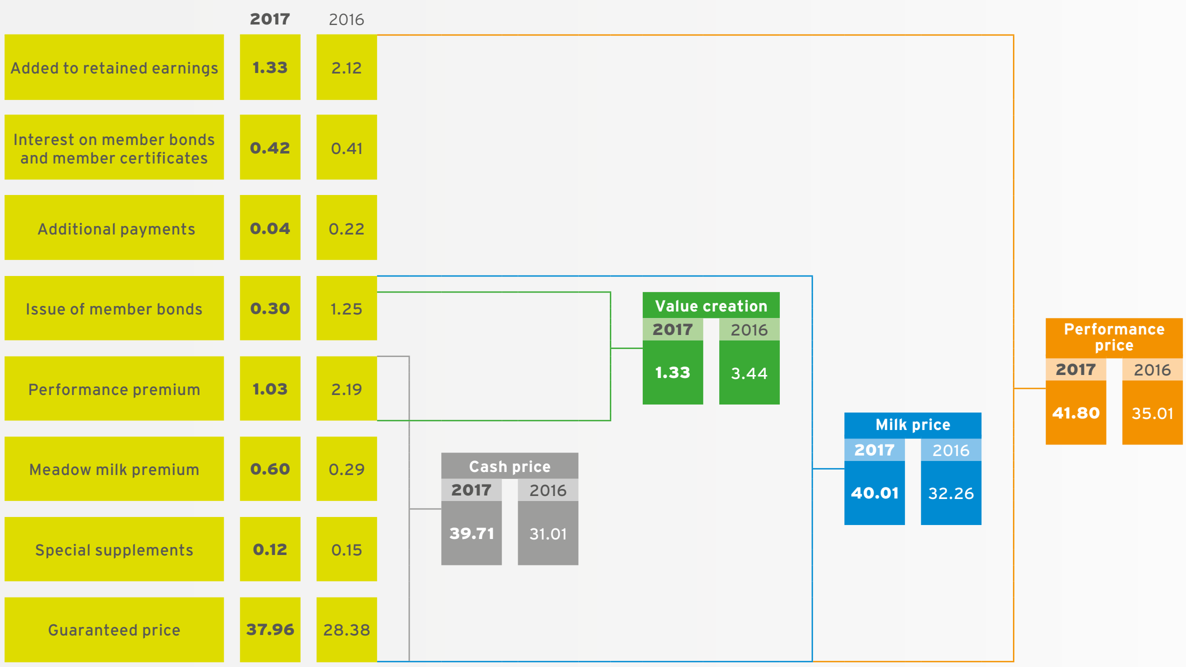
In 2017, 10,716 million kilos of milk were supplied by the cooperative's member dairy farmers, which is virtually the same level of milk that was supplied in 2016 (10,774 million kilos).

Temporary measures

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,

Milk price and performance price

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



FrieslandCampina paid member dairy farmers 0.10 euro for each kilo of less milk supplied. In the first three months of 2017, 48 million kilos less milk was supplied in comparison to the reference volume and 4.8 million euros was paid to the participating member dairy farmers.

The temporary standstill measure was in effect between 9 January and 1 March 2017. This measure was to contribute to balancing the milk supply and available processing capacity. In its capacity planning for 2017, FrieslandCampina had taken into account the implementation of the system of phosphate rights on 1 January 2017, which was deferred to 1 January 2018 at the time. 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. On the basis of this temporary cooperative scheme, 6.9 million euros was paid to member dairy farmers. 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.

Realisation of route2020 strategy

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

Expanding leading positions in growth markets

In four out of eight growth markets, FrieslandCampina succeeded in realising volume growth. The most successful markets in 2017 were China/Hong Kong (primarily with the Friso infant nutrition brand) and Indonesia (primarily with condensed milk). In addition, the performance of the priority product-market combinations in Nigeria and the Middle East improved. In the Philippines, volumes were lower than in 2016, due to the intensified competition of local brands. Volumes lagged in the Europe, Middle East & Africa business group.

Protecting volume in domestic markets

Volume growth was realised in three of the five domestic markets. In the Netherlands, this was due to Campina (quark, yoghurt) and Chocomel. The cheese volume development in most markets (except in Africa) was positive, especially in export and private label activities. This contributed to the total volume growth of domestic markets. The growth trend in the food service segment started in 2015 continued, thanks to the Debic, Campina and other B2B products (cream, milkshakes and desserts). In Germany, dairy-based beverage volumes were under pressure and Landliebe volumes declined in comparison to 2016. Measures have since been announced in Germany.

Developing future markets

In general, future markets grew by 4 percent in comparison to last year, with the exception of Pakistan. This growth is primarily due to dairy-based beverages in Africa (evaporated milk and condensed milk) and medical nutrition in the Ingredients business group. The volume in Myanmar was lagging in comparison to plan due to weak market demand.

Aspiration	Realisation
• To achieve around **5** percent annual volume growth up to 2020 in the selected priority product-market combinations.	• In 2017, the volumes in the selected priority product-market combinations were equal to those for the year 2016.
• To efficiently process approximately **10** billion kilos of milk supplied by member dairy farmers.	• In 2017, 10.7 billion kilos of milk supplied by member dairy farmers was processed.
• To grow to **15** billion euros revenue by 2020.	• In 2017, 12.1 billion euros in revenue was realised.
• To be financially healthy and in harmony with nature and society in the short term and in **20** years' time in order to also create value for the following generations of dairy farmers.	• In 2017, buffer capital was 14.2 percent in comparison to 14.0 percent in 2016. • The development of the sustainability programme is on track: six of the ten core objectives for 2020 were achieved by year-end 2017. Energy efficiency and greenhouse gas emissions at farms require more attention.

Business groups

Consumer Products Europe, Middle East & Africa

Revenue in 2017 rose to 3,518 million euros, an increase of 3 percent in comparison to 2016. This is primarily due to higher sales prices in response to the significantly increased guaranteed price and the purchase price of other raw materials. In 2017, volumes decreased for various reasons, including a fire in Nigeria and the decision not to renew 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 a delay in passing on increased costs as a result of standing contracts with customers.

- Revenue and volume in the Netherlands and Belgium were under pressure due to increasing competition from brands and private labels in a slightly declining market.
- The revenue and volume of food service products grew.
- Dutch investment company Standard Investment took over the Riedel fruit juices and fruit drinks activities in the Netherlands and Belgium. This enables FrieslandCampina to primarily focus on its dairy portfolio.
- The result trend in Germany continues to be disappointing due to the fact that the rising guaranteed price could only be passed on in part and with a delay.
- Positive revenue, volume and market share trends in Southeast Europe.
- Revenue and volume in the Middle East were under pressure due to negative currency translation effects and the rising guaranteed price that due to price regulation cannot be passed on in sales prices.
- Volume and result recovered in North and West Africa. However, revenue and result in Nigeria were under pressure due to a fire at a production facility and negative currency translation effects.

Key figures	**2017**	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	**3,518**	3,419	2.9
Revenue before currency translation effects	**3,618**	3,419	5.8
Operating profit [1]	▼		
Price effect on revenue [1]	▲		
Volume trend (percentage) [1] (adjusted for disposals)	**-4.8**		
Volume-mix effect on revenue (percentage) [1]	**-2.8**		

[1] Compared to 2016

Consumer Products Asia

Revenue in 2017 rose by 9 percent to 2,529 million euros due to the acquisition of Engro Foods in Pakistan at the end of 2016. The company contributes to revenue for the full year in 2017. Autonomous revenue declined by 3.2 percent, with stable volumes. The positive currency translation effect on revenue amounted to 72 million euros (3.1 percent). The operating profit declined due to the increase in raw material prices that could only partly be passed on in sales prices and only after a delay. Price competition, especially by local competitors, is increasing.

- Volume grew in Indonesia, Vietnam, Hong Kong and Thailand.
- Frisian Flag experienced strong growth with its condensed milk in Indonesia.
- Volume and result were under pressure in the Philippines, in particular due to strong price competition from local producers.
- Friso is market leader in Hong Kong. Due to a decrease in the number of Chinese tourists in Hong Kong and the stricter border policy, volume and result grew at a reduced rate.
- Market shares in the region were under pressure due to increasing price competition by local competitors.
- Engro Foods in Pakistan experienced a difficult year. Sales declined due to local protests against packaged milk and margin was under pressure due to unfavourable tax measures.

Key figures	**2017**	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	**2,529**	2,321	9.0
Revenue excluding acquisition	**2,238**	2,312	-3.2
Revenue excluding acquisition and before currency translation effects	**2,310**	2,312	-0.1
Operating profit [1]	▼		
Price effect on revenue [1]	▼		
Volume trend (percentage) [1]	**23.8**		
Volume trend excluding acquisition (percentage) [1]	**0.5**		
Volume-mix effect on revenue (percentage) [1]	**0.2**		

[1] Compared to 2016

Consumer Products China

At 583 million euros, revenue stayed approximately the same as in 2016. Competition on price increased ahead of the new registration criteria for infant nutrition. Effective from 1 January 2018, only infant nutrition recipes approved by the Chinese authorities can be sold. The result is that the number of recipes will be limited.

The total Friso market share remained the same in comparison to 2016, in a highly competitive market. Dutch Lady infant nutrition produced by the joint venture Friesland Huishan Dairy is gradually growing in revenue, as well as volume. The partner in this joint venture, China Huishan Dairy Holdings Company Ltd, ran into financial problems at the end of March 2017. This caused the partner's production to be lost and the business group's volume declined by 3.9 percent. The business group's operating profit was under pressure due to negative currency translation effects and increased competition.

- Friso Prestige grew significantly in volume due to the expansion of its distribution network to include additional cities and the increasing demand for more premium infant nutrition.
- Friso Gold continued to be the market leader in digital sales, but volume was under pressure
- Dutch Lady Gold, Friso Gold and Friso Prestige Stage 1, Stage 2 and Stage 3 were approved by the China Food and Drug Administration.
- The importance of online activation and sales continued to increase in China.
- Black&White condensed milk continued to grow in the catering segment.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	583	575	1.4
Revenue before currency translation effects	604	575	5.0
Operating profit [1]	▼		
Price effect on revenue [1]	▼		
Volume trend (percentage) [1]	-3.9		
Volume-mix effect on revenue (percentage) [1]	7.4		

1 Compared to 2016

Cheese, Butter & Milkpowder

Revenue in 2017 rose by 21.0 percent to 3,104 million euros. The total sales volume declined due to the reduced sale of basic products. The sales prices for butter (for industrial buyers) and for cheese, albeit at a lower rate, rose significantly in the first three quarters. These price increases resulted in a significantly higher operating profit in the first half of the year. However, the significant decrease in butter and cheese prices in the fourth quarter offset these positive results.

- Cheese sales to supermarkets in Europe rose in volume as well as value.
- The volume and the result for the Zijerveld cheese merchant increased.
- The sales of meadow cheese continued to increase.
- The sales prices for butter achieved a record high and the sales volume of specialty butters continued to grow.
- Milk powder sales prices continued to be low in part due to the European stocks of skimmed milk powder.
- FrieslandCampina Export's result was under pressure due to difficult market conditions, especially in Africa, the higher guaranteed price and negative currency translation effects.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	3,104	2,565	21.0
Operating profit [1]	▼		
Price effect on revenue [1]	▲		
Volume trend (percentage) [1]	-4.5		
Volume-mix effect on revenue (percentage) [1]	-2.3		

1 Compared to 2016

Ingredients

Revenue in 2017 rose by 7.6 percent to 1,793 million euros. This increase is primarily due to price increases. Volume rose somewhat, while the operating profit remained the same in comparison with 2016. Excluding the one-off gain in 2016, due to the sale of a business unit, the operating profit rose as a result of an improved margin.

- FrieslandCampina DMV was successful in the sale of caseinates and protein-rich specialties for sports nutrition. In addition, a promising start was made in the medical segment.
- FrieslandCampina Domo grew in volume, while the result was under pressure due to increasing competition on ingredients for infant nutrition and rising raw material costs.
- DFE Pharma experienced growth due to growth in market share among major clients.
- The creamers market was competitive due to recent expansions in market capacity and the volatility of the costs of raw materials.
- The margin improved due to cost controls and improvements in efficiency.

Key figures	2017	2016	Δ%
millions of euros, unless stated otherwise			
Revenue	1,793	1,667	7.6
Operating profit [1]	~		
Price effect on revenue [1]	▲		
Volume trend (percentage) [1]	0.6		
Volume-mix effect on revenue (percentage) [1]	0.5		

[1] Compared to 2016

Innovation

FrieslandCampina focuses its innovations on the realisation of sustainable growth and the health and well-being of consumers. Specific research & development programmes focus on improvements in the dairy farming sector and in the area of sustainability. In 2017, FrieslandCampina invested 81 million euros in research & development activities.

Milk contains high-quality proteins, minerals, such as calcium, and vitamins, such as B2 and B12. FrieslandCampina makes an effort to gain even better insight into the nutritional needs of babies, children, adults, active sports people and the elderly in different countries and cultures, allowing it to contribute to people's health. This translates into new products and better processing capabilities.

Key developments in 2017

- The composition of Frisomum Dualcare+ has been adjusted to meet the needs of pregnant women and the unborn child.
- In China, the Chinese government has approved the recipes for Friso Gold, Friso Prestige and Dutch Lady Gold (Stage 1, 2, 3).
- New infant nutrition ingredients were developed for various B2B customers.
- The range of ingredients for FrieslandCampina DMV's sports nutrition products was further expanded.
- Recipes for evaporated milk were improved on the basis of new knowledge and insights about proteins in relation to consumer taste preferences and applications.
- Protein-rich sports nutrition for sports people was developed and introduced under the name Vifit Sport.
- The medical nutrition research programme offers prospects for the coming years.
- The FrieslandCampina Institute organised a conference during which knowledge, insight and experiences about sport and nutrition were shared with 800 nutrition experts.

Milk in coffee and tea beverages

Rainbow Qubez, a product composed of concentrated milk, tea and herbs, was introduced in the Middle East. This is a traditional Karak tea with an authentic flavour that takes minutes to prepare instead of half an hour. Following the development of Lattiz (milk foam system for the catering sector) in 2015, this is once again a groundbreaking innovation using milk in coffee and tea drinks.

Cheese innovations
A new E-number free mozzarella variation was introduced, responding to demand from pizza and salad producers. An Edam cheese with low salt content, yet extremely flavourful, was developed for the Spanish market. A new 35+ cheese was developed for a retail organisation. The product contains less fat and stands out in terms of flavour and structure. FrieslandCampina won various awards with this new cheese.

Packaging
FrieslandCampina also renews and improves packaging. A new PET production line and packaging have been developed and put into use for Vifit Goedemorgen and Landliebe. New re-sealable packaging, with a 60 percent lower CO_2 footprint, was developed for Milner sliced cheese.

More sustainability
Processes, products and dairy farming are becoming increasingly sustainable. Based on heat recovery, FrieslandCampina saves significant quantities of energy in the milk drying process. For our dairy farmers, FrieslandCampina has developed a practical model that calculates the emission of greenhouse gases for the milk produced on individual dairy farms. The model uses various data points, such as farm size, feed composition, use of artificial fertilisers, herd characteristics and energy generation. The results provide dairy farmers with better insight into how the emission of greenhouse gases associated with milk production can be reduced.

Website: open innovation
Collaboration through open innovation and particularly with start-ups is important to FrieslandCampina. External parties are invited to contribute to innovations via a website (www.frieslandcampina.com/en/innovation/open-innovation). This results in new knowledge and insights that are not directly available within the Company, enabling it to more quickly anticipate new developments.

In 2018, innovations are foreseen in a number of areas, such as sustainability, infant nutrition, sports nutrition, coffee and tea creamers, and a further reduction of sugar, salt and calories. In various areas the Company is collaborating with other organisations, such as Wageningen University & Research.

Various innovations in 2017

Vifit Sport	protein-rich ‘after exercising’ sports nutrition
Vifit, Vifit Goedemorgen, Vifit Sport	new PET bottle
Rainbow Qubez	concentrated product of milk and tea, in innovative packaging, that simplifies and speeds up the preparation of Karak tea, while retaining its authentic flavour
Yazoo No Added Sugar	dairy-based beverage without added sugars in various flavours for the British market
Fruttis yoghurt	protein-rich yogurt for the Russian market
Campina met een vleugje smaak	dairy-based beverage in two flavours for the Belgian market
Frisomum Dualcare+	nutrition for pregnant women and the unborn child
Milner	new, re-sealable and more sustainable packaging for sliced cheese
Edam	improved Edam cheese recipe (less salt) for the Spanish market

Purpose-driven enterprise

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 purpose: *nourishing by nature* – better nutrition for the world's consumers, a good living for our farmers, now and for generations to come. The activities contribute to the Sustainable Development Goals of the United Nations.

Sustainable Development Goals

The Sustainable Development Goals comprise seventeen ambitious goals relating to topics such as responsible production and consumption, climate, sustainable communities, health, well-being and efforts to fight poverty and starvation. These development goals have been endorsed by 193 countries and give governments and the business sector a roadmap for a fairer and more sustainable future. The FrieslandCampina *route2020* strategy and the *nourishing by nature* sustainability policy are in line with the Sustainable Development Goals.

Better nutrition for the world's consumers

FrieslandCampina's nutritional policy is based on the WHO Global Action Plan. It is consistent with two Sustainable Development Goals of the United Nations: to end hunger in the world and to promote good health and well-being. FrieslandCampina works on a healthy product range, is transparent in its communications about its products and initiates educational programmes about healthy nutrition.

2017 results

Balanced product range

FrieslandCampina's product range has a good balance between consumer products as basic nutritional products for daily consumption and indulgence products for occasional consumption. Starting in 2017, this indicator will be reported on the basis of sales volume. The objective is to achieve a proportion of at least 70 percent basic nutritional products and therefore a maximum of 30 percent indulgence products. In 2017, this target was achieved with proportions of 81.2 percent and 18.8 percent, respectively.

Key figures	2017	2016	Δ%
Better nutrition for the world's consumers			
Balanced product supply [1] (basic food products sold as a percentage of the total volume of consumer products sold)	**81**	76 [3]	5
Product composition [2] (products that meet the FrieslandCampina Global Nutritional Standards as a percentage of the total volume of consumer products sold)	**64**	62 [3]	2
A good living for our farmers			
Value creation member dairy farmers (in euros per 100 kilos of milk)	**1.33**	3.44	-61.3
Local farmers who participate in a training programme in DDP countries (number)	**20,347**	18,752	8.5
Local dairy farms that at a minimum received a 'satisfactory' rating in relation to the FAO's Good Dairy Farming Practices in DDP countries (as a percentage of the research group)	**54**		
Now and for generations to come			
Sustainable production			
Energy consumption (GJ/tonne product)	**2.82**	2.77	1.8
Greenhouse gas emission production and transport (kt CO_2 equivalent)	**883**	926	-4.6
Sustainable procurement of raw materials			
Sustainable agricultural raw materials (percentage of total raw materials) [4]	**55**	43	
Green electricity (percentage of total electricity consumed)	**80**	78	
Dairy Farms			
Pasture grazing (percentage of member dairy farms in the Netherlands applying a form of pasture grazing)	**79.4**	78.2	
Greenhouse gas emissions by member dairy farms (kt CO_2 equivalent)	**12,098**	13,206	-8.4

1 FrieslandCampina's product range has a good balance between basic nutritional products for daily consumption and indulgence products meant for occasional consumption.
2 The largest part of FrieslandCampina's product range complies with the criteria for elements such as protein, calories, sugar, salt and fat, as described in the FrieslandCampina Global Nutritional Standards.
3 Several details of the monitoring process were refined in comparison to 2016. The auditor did not provide any assurance for the 2016 figures.
4 Raw materials with globally recognised sustainability certificates or products for which a plan for sustainable development is created in cooperation with suppliers.

Product composition

The largest part of FrieslandCampina's consumer products complies with the FrieslandCampina criteria for e.g. protein, calories, sugar, salt and fat. The objective is that by 2020, at least 65 percent of the products (on the basis of sales volume) comply with the criteria as described in the FrieslandCampina Global Nutritional Standards. In 2017, this was 64.5 percent. The FrieslandCampina Global Nutritional Standards are scientific nutritional criteria that FrieslandCampina's consumer products are expected to meet. They are used as a guideline in the reformulation programme.

Milk naturally contains important nutrients such as protein and calcium that FrieslandCampina wants to retain in its products as much as possible. According to the World Health Organisation, in the fight against diseases of affluence (obesity and nutrition-related diseases), it is important to limit the intake of sugar, salt and fat. FrieslandCampina aims to limit the content of these nutrients in its products. The criteria for trans-fat, saturated fat, added sugar and salt are taken from the criteria of Choices International, developed by independent scientists.

The number of calories and the quantity of salt, sugar, fat and protein to be met by a product depends on the type of product (for example, milk product, cheese, butter or meat substitute) and its importance in daily nutrition (basic food products for daily consumption, self-indulgent products or products for a specific target group).

A good living for our farmers

FrieslandCampina's goal is to optimise milk valorisation, so as to maximise its contribution to the incomes of dairy farmers and the continuity of dairy farms for many generations to come. The task is to process the milk of the Zuivelcoöperatie FrieslandCampina's member dairy farmers and to sell it at a price that ensures value is created in a sustainable way over the long term for member dairy farmers and society. This value creation becomes evident in the level of the performance premium and member bonds that member dairy farmers receive on top of the guaranteed price for their milk. FrieslandCampina has more than 140 years of experience in the dairy farming sector and applies the knowledge gained to help dairy farmers in countries in Asia, Africa and Eastern Europe to further develop their farms, for example on the basis of the Dairy Development Programme.

2017 results

Dairy Development Programme

In 2017, more than 55,000 local farmers in nine countries in Africa, Asia and Eastern Europe were part of the Dairy Development Programme (DDP). In 2017, the Big Push Programme was initiated in Pakistan. 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 Punjab Province.

A milk collection centre was opened in Saki, Nigeria, in June 2017. Five hundred dairy farmers drop off their milk here every day, which is then transported to Lagos. In Thailand, Malaysia, Indonesia, Nigeria, Vietnam, Uganda and Ethiopia, more than 375 dairy farmers were trained by FrieslandCampina member dairy farmers as part of the Farmer2Farmer programme. In addition, this year, for the first time, FrieslandCampina measured the extent to which dairy farms in DDP countries comply with the Good Dairy Farming Practices of the United Nations Food and Agriculture Organisation (FAO). This was done for a select focus group of 199 dairy farms in Vietnam, Indonesia and Malaysia. 54 percent scored at least satisfactory.

Now and for generations to come

FrieslandCampina is working on climate-neutral growth of the dairy farming sector, continuous improvement of animal health and animal welfare, and the preservation of biodiversity. In relation to climate, the goal FrieslandCampina has set for itself is to keep the greenhouse gas emissions in 2020 of the Cooperative and the company as a whole equal or lower to 2010. This also applies in case of an increase in production. This includes the greenhouse gases released at member dairy farms, during transport from the farm to production facilities and when the dairy is processed. To achieve climate-neutral growth, FrieslandCampina is working on creating an efficient and sustainable production chain. This means improving sustainability in dairy farming, procuring sustainable (agricultural) raw materials, and reducing energy consumption in the production of dairy products. Furthermore, the issue of green certificates stimulates member dairy farmers to generate sustainable energy, for example with wind turbines, solar panels or biomass.

Worldwide, antibiotics make a key contribution to countering bacterial infections in both humans and animals. To help prevent antibiotics resistance, the Dutch animal sectors have negotiated agreements with the government relating to responsible antibiotics consumption. At dairy farms, antibiotics may be applied only on the explicit instructions of a veterinarian. The use of antibiotics at dairy farms has decreased in recent years. This is the result of the efforts made by FrieslandCampina's member dairy farmers and due to better collaboration with other parties in the dairy chain, including veterinarians.

A grazing cow is part of the Dutch cultural landscape. 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 of gross 1.50 euro per 100 kilos of milk. Furthermore, FrieslandCampina also allows the option of partial pasture grazing with a 0.46 euro mark-up per 100 kilos of milk. To qualify, dairy farmers must allow a minimum of 25 percent of the cattle present on their dairy farm to graze in the pasture for a minimum of six hours a day on at least 120 days per year.

2017 results

Climate-neutral growth

The greenhouse gas emission for production and transport, in kt CO_2 equivalent, declined by 4.6 percent. The key reason for this is the increasing quantity of energy produced from renewable resources (solar panels, wind) by the cooperative's member dairy farmers, as well as the increased purchase of renewable energy to replace the energy produced with fossil fuels. In 2017, energy consumption increased by 1.8 percent to 2.82 GJ/tonne.

A programme designed to enable FrieslandCampina to reduce its energy consumption by at least 8 percent over a period of four years was initiated in 2017. The programme includes various components, which will result in significant reductions such as the technological process innovations in Leeuwarden and Gerkesklooster (both in the Netherlands) to be completed in 2018. During start-up, these projects will initially lead to increased energy consumption.

Sustainable procurement of raw materials

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

In 2017, the share of raw materials purchased from sustainably managed sources increased to 55 percent. This represents an increase of 12 percentage points compared to 2016. For example, the share of cane sugar purchased from sustainably managed sources increased by 16 percentage points. In addition, the purchase of starch from sustainably managed sources rose by 21 percentage points in 2017. Furthermore, the purchase of paper packaging from sustainably managed sources rose by 14 percentage points, particularly due to the increased purchase of sustainable corrugated cardboard.

FrieslandCampina is a co-founder of the BICEPS Network for more sustainable ocean shipping. The BICEPS Network factors in the environmental performance of shipping companies in the procurement of sea freight and aims to simultaneously accelerate the implementation of successful sustainable innovations in this sector. In 2017, FrieslandCampina used the scores from the BICEPS Rating System as an additional selection criterion in the procurement of sea freight. In 2017, the number of participants in the BICEPS Network doubled to ten participating companies, and innovation sessions were held on sustainable fuels and fuel efficiency techniques.

2017 is the first year in which all of FrieslandCampina's production facilities in Europe made 100 percent use of green electricity. This represents 80 percent of FrieslandCampina's total worldwide electricity consumption. Almost 30 percent of all green electricity is purchased from our members. In addition to the purchase of green electricity, some of the production facilities also directly generate solar energy on their roofs.

Our employees

Dairy farms

In 2017, 79.4 percent of member dairy farmers in the Netherlands practised some form of pasture grazing. This represents an increase of 1.2 percentage point in comparison to 2016. In 2017, 314 member dairy farmers used pasture grazing for their dairy cattle for the first time. In 2017, the sales volume of meadow cheese once again increased.

FrieslandCampina, the World Wildlife Fund (WWF) and Rabobank have developed a methodology that makes it possible to measure the impact of dairy farms on biodiversity and climate at farm level. This provides insight into potential farm improvements. FrieslandCampina, together with member dairy farmers, will be investigating how to make use of this methodology.

In 2017, the average number of employees (FTEs) rose by 8 percent to 23,675, primarily due to the acquisition of Engro Foods in Pakistan.

Talent Management

Focused recruitment, development and retention of talent are crucial for FrieslandCampina to continue to be successful. Progress was made in this area in 2017:

- FrieslandCampina developed its employer's image and received various best employer awards in Nigeria, China, Malaysia and Hong Kong.
- Internal candidates were appointed to 71 percent of vacant management positions (target is 75 percent).
- Of the internal senior management appointments, 46 percent were promotions. A large part of these promotions (40 percent) came from the Future Leaders pool.
- Sixty leadership programmes are being provided by recognised business schools throughout the world. A large internal leadership programme (Nourishing Leadership) involving 1,344 participants also forms part of this.

Diversity

FrieslandCampina aims to increase the percentage women in senior management positions to 30 percent by 2020. In 2017, this was 23.1 percent which is virtually the same as in 2016. At year-end 2017, FrieslandCampina appointed a new Executive Leadership Team. Forty percent of the members of the Executive Leadership Team and fifty percent of the members of the Executive Board are women. Four nationalities are represented among the ten members of the Executive Leadership Team. The appointments indicate that FrieslandCampina is intensifying its diversity in the new organisation.

Number of employees	**2017**	2016
Average number of FTEs		
Consumer Products Europe, Middle East & Africa	**7,160**	7,313
Consumer Products Asia	**7,773**	6,190
Consumer Products China	**1,153**	1,101
Cheese, Butter & Milkpowder	**2,723**	2,720
Ingredients	**3,060**	3,094
Corporate & Support	**1,806**	1,509
FrieslandCampina	**23,675**	21,927

Culture
FrieslandCampina's culture ensures that colleagues appreciate each other, communicating openly and acting decisively. In 2018, the company launches a programme using these values to shape an energetic and performance-driven culture to focus on winning. This programme includes a number of projects to influence our employees' attitude and behaviour, ensuring we achieve our ambitions. Employees take inspiration from the following starting points: our purpose nourishing by nature is leading; have a commercial attitude; and behave as if FrieslandCampina is your own company.The programme also results in changes to our remuneration systems, new development programmes for managers and new meeting structures. This is supported by an extensive communication campaign.

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

Compass
In 2017, FrieslandCampina once again focused the attention of its employees on Compass, its Code of Conduct for good business behaviour, and the Speak Up procedure. New employees attend an introduction session and must complete mandatory e-learning about Compass and Speak Up. Employees complete mandatory e-learning and training courses about Compass topics that are relevant to their position, such as fair competition practices, fair business practices and the privacy/protection of personal data. The Compass Code of Conduct and the Speak Up procedure are available on FrieslandCampina's website.

Employee Rights and Human Rights
FrieslandCampina considers its employees to be the most valuable pillar of the company. Stimulating open communication among and with employees, and encouraging employees to develop themselves professionally and personally is a key aspect in this. Motivated and well-trained employees enable FrieslandCampina to achieve its goals.
We respect and support internationally recognised human rights, such as the right of employees to join recognised trade unions. The basic principles underlying this 'responsible entrepreneurship' are the OECD Guidelines for International Companies, the ILO International Labour Standards and the UN Universal Human Rights Declaration. FrieslandCampina expects every employee to immediately address any form of discrimination or harassment.
Child labour and forced labour are not tolerated. FrieslandCampina contributes to banning such practices. It expects its business partners to do the same.

Honest business practices – gifts and payments
FrieslandCampina adheres to honest business practices and permanently rejects any form of bribery. The company does not give or promise anything of value for the purpose of gaining preferred treatment in inappropriate ways. Bribes are not accepted nor solicited. If deemed appropriate, gifts and entertainment are used to develop or strengthen business relations and to show appreciation or create goodwill. 'Appropriate' here means at the right time, moderate, infrequent and no more than acceptable in accordance with local business practices. FrieslandCampina is even more reticent in its relations with government officers, particularly because most of them are not permitted to accept any gifts or forms of entertainment.
In 2017, workshops concerning relevant dilemmas relating to the honest business practices theme were held in operating companies in Romania, Russia, Vietnam, Myanmar, the Philippines, Malaysia, West Africa, North Africa and FrieslandCampina Export. More than 445 senior managers took part in these workshops.

Safety

FrieslandCampina aims to create the safest possible workplace for its employees and suppliers. The objective is zero accidents and incidents, so that everyone working for FrieslandCampina comes home safe and sound (zero harm).

In 2017, the number of accidents resulting in sick leave at FrieslandCampina locations stabilised at 40 (2016: 36). In 2017, the measurement and management of the 'number 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' (collectively the 'total number of accidents'). The total number of accidents declined by 24 percent to 169 accidents (2016: 223). The total number of accidents per 200,000 hours worked declined from 0.78 to 0.55.

In 2017, the main causes of accidents were related to:
1. Unsafe behaviour: acting too fast (with good intentions: to prevent process interruption).
2. Falling, tripping, slipping (falling from stairs, slippery floors).
3. Machines (interventions in rotating parts, exposure to steam, hot liquids, pressure, electricity, et cetera).
4. Internal transport (forklift truck and pallet truck collisions).

In 2017, additional attention was paid to the safety of temporary employees and suppliers, explosion safety – through means of a global ATEX Programme, accident analyses and lessons learned from incidents.

Risk management

In its business operations FrieslandCampina is confronted with risks and uncertainties caused by external as well as internal factors. The company's degree of risk has increased in recent years due to global developments. Examples of this include economic developments in emerging markets (including the volatility of exchange rates), the volatility of energy and raw material prices, increasing laws and regulations, cyber risks and the increasing importance of digitisation and social media. These changes in the degree of risk are inherent to the sector and are not unique to FrieslandCampina.

FrieslandCampina opts for a proactive risk management approach, anchored in operating processes, as an integral part of responsible business management.

For a description of the complete FrieslandCampina risk management framework and an overview of the key risks and measures see the 'Risk management framework' section on page 33.

Outlook

FrieslandCampina expects global milk production to continue to increase in 2018. Due to the phosphate legislation, milk production in the Netherlands is expected to remain virtually stable. The demand for dairy products in the European Union is expected to increase somewhat, due to lower market prices. It is expected that the demand for dairy products in Asia, particularly in China, will further increase due to positive economic growth and low global market prices. Demand in other regions is also expected to increase, albeit to a lesser degree. The dairy market is expected to regain its balance by mid-2018 and milk prices are expected to stabilise.

FrieslandCampina's revenue is expected to be under pressure in the first half of 2018 due to lower sales prices for basic dairy products. Another key factor is the development of the euro in relation to the US dollar and in relation to the Asian currencies. A strong euro has a negative translation effect on FrieslandCampina's result.

In 2018, investments amounting to approximately 500 million euros are foreseen in quality improvements and the expansion of capacity. To be able to enhance our competitive position over time, investments in Research & Development will be further increased by approximately 10 percent.

On 21 November 2017, FrieslandCampina's Members' Council approved a temporary conditional measure. This measure can be activated during the period of 1 January up to and including 30 June 2018, should the expected supply of milk by member dairy farmers exceed FrieslandCampina's processing capacity. A good balance between the volume of supplied milk, FrieslandCampina's processing capacity and market demand is a condition for optimally valorising members' milk.

Increasing decisiveness, effectiveness and efficiency will be accelerated at production facilities, as well as in the office environment. This may result in job losses.

In realising it plans for *route2020* FrieslandCampina starts from a solid financial foundation. It is expected that in 2018, FrieslandCampina will be able to comply with the financial ratios required by its financers.

FrieslandCampina does not make any statements concerning the development of the results in 2018.

Management statement

The Executive Board of the Company bears ultimate responsibility for managing the risks inherent in the Company's objectives, and for the reliability of the external (financial) reporting. The Executive Board is also responsible for evaluating the effectiveness of the measures to prevent or mitigate these risks. The Executive Board has evaluated the effectiveness of the internal management and control measures. On this basis the Executive Board concludes that:

- the report provides sufficient insights into any failings in the internal risk management and control systems;
- the aforementioned systems provide a reasonable degree of assurance that the financial reporting does not contain any material misstatements as at the end of the financial year 2017;
- based on the current state of affairs, it is justified that the financial reporting is prepared on a going-concern basis; and
- the report states those material risks and uncertainties that are relevant to the expectation of the company's continuity for the period of twelve months after the preparation of the report.

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

Executive responsibility

In accordance with Section 5:25c paragraph 2 sub c of the Dutch Financial Supervision Act (Wft), the members of Royal FrieslandCampina N.V.'s Executive Board herewith state that, insofar as they are aware, the Company's financial statements provide a true and fair view of the assets, liabilities and financial position and result of Royal FrieslandCampina N.V. and the companies jointly consolidated; and that the annual report provides an accurate overview of the situation as at 31 December 2017, the progress and operations during the relevant financial year within Royal FrieslandCampina N.V. and the consolidated companies; and that the principal risks that Royal FrieslandCampina N.V. is confronted with are set out in the Annual Report.

Executive Board

Hein (H.M.A.) Schumacher
Chief Executive Officer

Jaska (J.M.) de Bakker
Chief Financial Officer

Amersfoort (Netherlands), 16 February 2018

Governance

Corporate governance at a glance

Corporate governance principles

Royal FrieslandCampina N.V. (the 'Company') applies the principles of the Dutch Corporate Governance Code (the 'Code') on a voluntary basis. Following a review of the Code in December 2016 and the change of governance, the Company's regulations were revised effective 1 January 2018. The way in which the Code's principles will be applied is described in this section. This includes an indication and motivation of the points in which the Code is not applied by the Company. For the governance structure that applied during 2017, please refer to the 2016 Annual Report.

Shareholder Structure

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

Board Structure

The Company has a so-called 'two-tier structure' with an Executive Board and a Supervisory Board. The Executive Board comprises two members, a Chief Executive Officer (CEO) and a Chief Financial Officer (CFO). The Executive Board's composition and division of tasks is explained on page 131.

The Supervisory Board comprises the nine members of the Board of the Cooperative plus four 'external' members. The composition of the Supervisory Board is reported on page 128 to 130.

Supervisory Board Committees

The Supervisory Board has instituted two committees: the Audit Committee, which comprises four supervisory board members, and the Remuneration & Appointment Committee, which comprises three supervisory board members. The composition of the Supervisory Board's committees is included on page 130.

Report of the Supervisory Board

The topics covered in the report of the Supervisory Board include the activities of the Supervisory Board and its Committees during the year under review. This report is included on pages 40 to 46.

Corporate governance

The corporate governance principles followed by Royal FrieslandCampina N.V. are laid down in the Articles of Association and the Regulations of the Company's various bodies. All of this information is published on FrieslandCampina's website. Although the Code is not applicable to the Company, as according to law only stock exchange listed companies are governed by the Code, the Company applies the principles and best-practice provisions of the Code that are compatible with its structure of authority and the nature of the Cooperative. Provisions that are not applied are specified in this overview, along with the reasons why they are deemed inappropriate and the extent to which they are not applied. The Code was amended effective 1 January 2017. Furthermore, effective 1 January 2018, the Company's executive structure was modified. As a result, the Company has revised its governance structure. The Company's changed regulations came into force on 1 January 2018. For the governance structure that applied during the reporting year, please refer to the 2016 Annual Report.

Executive Board and Executive Leadership Team

Composition, tasks and responsibilities of the Executive Board

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

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

Appointment of Executive Board members

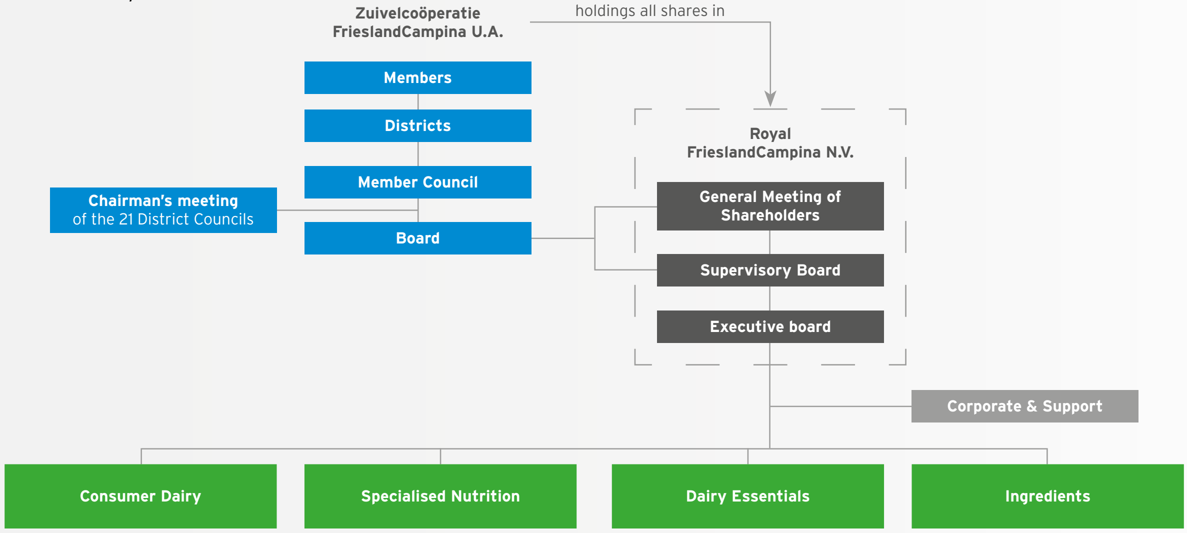
The members of the Executive Board are appointed by the Supervisory Board for a maximum term of four years. The Supervisory Board notifies the General Meeting of Shareholders of an intended appointment and does not dismiss members of the Executive Board until after the General Meeting of Shareholders has expressed its opinion.

Composition, tasks and responsibilities of the Executive Leadership Team

The Executive Board is supported by the Executive Leadership Team in its day-to-day affairs. The Executive

Governance structure

Per 1 January 2018



Leadership Team consists of the two members of the Executive Board, the presidents of the four business groups and FrieslandCampina China, as well as the functional managers of Human Resources, Research & Development and Corporate Supply Chain. The task of the Executive Leadership Team is to implement the strategy, transform objectives into specific plans and to manage operating companies within everyone's area of responsibility.

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

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

Supervisory Board

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

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

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

A joint meeting of the Supervisory Board and the Executive Leadership Team is scheduled at least once a year. During this meeting the Company's strategy and budget are discussed. In addition, the members of the Executive Leadership Team are invited to attend the meetings of the Supervisory Board when topics that are relevant to them are discussed. Furthermore, the Remuneration & Appointment Committee regularly holds progress meetings with the members of the Executive Leadership Team.

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

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

The four external Supervisory Board members are independent in the sense of the Code. The external Supervisory Board members are selected on the basis of the criteria laid down in the profile sketch. At least one Supervisory Board member is a so-called financial expert, which means that this person has acquired relevant expertise and experience in the field of financial administration/accounting with a large legal entity.

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

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

The appointment and reappointment terms used for internal Supervisory Board members are the appointment and reappointment terms of these internal members as members of the Board of the Cooperative. They are appointed for a term of in principle at most four years and may be reappointed twice as a maximum. An exception to the above-referenced appointment and reappointment terms of internal Supervisory Board members applies to the incumbent Chairman, who may be appointed for a fourth term in connection with the fact that the Company wants to be able to appoint a Supervisory Board member for this function who has a lot of experience with the day-to-day operations of the Company and the Cooperative. The term of internal Supervisory Board members in any event terminates upon termination of membership in the Board of the Cooperative.

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

Remuneration

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

Supervisory Board Committees

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

Audit Committee

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

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

- the integrity and quality of the financial reporting and the effectiveness of the Company's internal risk management and control systems;
- the Company's financing;
- the application of information and communication technology by the Company, including cyber security-related risks;
- the Company's tax policy;
- the relationship with the internal auditor and the external auditor (including the independence of the external auditor), compliance with recommendations and follow-up on observations;
- recommending candidates for appointment as internal auditor;
- the annual evaluation of the internal audit function;
- providing advice concerning the nomination for appointment or reappointment or dismissal of the external auditor and preparing for the selection of the external auditor;

- proposing the assignment of the audit of the financial statements by the external auditor;
- annually discussing the draft audit plan with the external auditor;
- compliance with legislation and regulations.

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

Remuneration & Appointment Committee

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

The duties of the Remuneration & Appointment Committee include:

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

Conflict of interests

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

The General Meeting of Shareholders

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

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

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

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

Company, share capital and Articles of Association

Royal FrieslandCampina N.V. is a public limited liability company with its registered office in Amersfoort, the Netherlands, with its central office at Stationsplein 4, Amersfoort. The Company's Articles of Association were most recently amended effective 26 January 2018, and are published on the Company's website. The latter amendments included the provisions concerning the appointment and reappointment terms of Supervisory Board members, and the implementation of new legislation in the Articles of Association. The Company is registered in the Chamber of Commerce's Trade Register under number 11057544. On 31 December 2017 the Company's authorised capital amounted to 1 billion euros divided into 10,000,000 (ten million) shares with a nominal value of 100 euros. The shares are registered. On the same date, 3,702,777 shares were issued, which have all been paid up and are held by the Cooperative. For the sake of brevity, for the stipulations regarding the issuing of shares, pre-emptive right, acquisition of own shares and capital reduction please refer to the Company's Articles of Association.

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

Financial Reporting

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

External Auditor

The external auditor is appointed by the General Meeting of Shareholders. The Supervisory Board nominates a candidate for this purpose. Both the Audit Committee and the Executive Board issue a recommendation to the Supervisory Board in this respect. The remuneration of the external auditor and assignment of the external auditor to carry out tasks not related to the audit are approved by the Supervisory Board on the recommendation of the Audit Committee and after consultation with the Executive Board. The external auditor is in any event present during the Supervisory Board meeting in which the decision to approve the financial statements is taken. The external auditor discusses the draft audit plan with the Executive Board before submitting it to the Audit Committee.

Internal audit function

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

Best-practice provisions of the Code not applied by FrieslandCampina

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

2.1, 2.1.7-2.1.9 **Independence of the Supervisory Board:** see motivation under 'Supervisory Board – Composition, independence and appointment'.

2.2.2 **Appointment and reappointment terms of Supervisory Board members:** deviation concerning internal members: see motivation under 'Supervisory Board – Composition, independence and appointment'.

2.3.2 **Institution of committees:** the Remuneration Committee and the Selection & Appointment Committee have, for practical reasons, been combined into the Remuneration & Appointment Committee.

2.3.4 **Composition of committees:** the composition of the Remuneration & Appointment Committee and the composition of the Audit Committee deviate from the best-practice provisions of the Code, which stipulate that more than half of the members of the committees should be independent: see motivation under 'Supervisory Board Committees'.

2.8.1-2.8.3 **Takeover bids:** the best-practice provisions in respect of takeover bids are not applicable in view of the fact that the Company is not a listed company and all shares in its capital are held by the Cooperative.

3.4 and 3.4.2 **Publishing of remuneration report, most important components of employment conditions or severance payment of Executive Board members:** the Company applies the statutory exception as defined in Article 2:383b of the Dutch Civil Code for so-called 'private public liability companies'.

4.1-4.4.8 **General Meeting of Shareholders:** the best-practice provisions in respect of the general meeting of shareholders, information provision and briefings, voting and the issue of depositary receipts for shares are not applicable in view of the fact that the Company is not a listed company and all shares in its capital are held by the Cooperative.

Risk management framework

FrieslandCampina aims for transparency in identifying, evaluating and mitigating risks. A risk management framework is used for this purpose based on internationally recognised COSO standards. As such, FrieslandCampina complies with the conditions of the Dutch Corporate Governance Code. This framework applies to the Company and its consolidated subsidiaries. It describes the risk management's risk appetite, structures, responsibilities, processes and governance. It has been developed to provide a reasonable degree of certainty that strategic objectives are achieved by creating focus, integrating control measures into the Company's activities, ensuring compliance with applicable laws and regulations, and by safeguarding the reliability of financial reporting and the related explanatory notes.

FrieslandCampina makes a distinction between strategic, operational, financial (reporting) and compliance risks. The Company applies different management programmes for various risk categories, as set out in the table below.

Notes to the Risk Management Programmes

Risk Category	Key Risk Management Programme	Explanatory note
Strategic risks: events that can have an adverse effect on the Company's ability to achieve strategic objectives.	Enterprise Risk	Strategic risks are managed by means of regular Company evaluations of strategic plans, budgets, forecasts and monthly results. In addition, there is an Enterprise Risk Assessment Programme. Risk assessments are conducted within this Programme with the management of FrieslandCampina's most important operating companies, all business groups and the Executive Board of the Company. In these risk assessments, management identifies key risks, evaluates the risk control measures and defines additional improvement measures.
Operational risks: events that can have an adverse effect on the operational objectives due to ineffective activities, the interruption of business processes or the inefficient use or loss of raw materials and/or business assets.	Programmes by Functional Discipline	Operational risks are managed with the help of various programmes for each functional discipline. For example, the Foqus programme for food safety and product quality, the global Safety, Health & Environment Programme for the safety of employees and the HR programmes for performance and talent management. Although these programmes differ in nature and are managed by various functional departments, they are all focused on identifying and evaluating risks and on defining additional improvement measures. Various operating departments regularly report on the progress and outcome of these programmes.
Financial reporting and other financial risks: unfavourable development of the Company's financial position or the risk of misstatements in the consolidated external financial reporting.	Internal Control Framework	FrieslandCampina is subject to a range of financial risks (including liquidity risks, currency risks, interest rate risks, commodity price risks, credit risks, country risks and other insurable risks) and a series of uncertainties that could have a significant impact on local tax results. For more information about treasury, tax and other financial risks, see note 26 of the consolidated financial statements. Financial (reporting) risks are managed in various ways, for example, by means of accounting and reporting policies, accounting instructions and systems. An Internal Control Framework based on the COSO Framework (1992) has been implemented within FrieslandCampina. The Internal Control Framework includes a structured self-assessment and monitoring process used throughout the entire Company to assess, document, evaluate and monitor compliance with internal control over financial reporting. Internal management representation, regular management reviews of findings and improvement measures, reviews of the design and effectiveness of internal controls, and reviews in the Audit Committee all form an integral part of the Company's Internal Control Framework Programme.

Risk Category	Key Risk Management Programme	Explanatory note
Compliance risks: non-compliance with applicable laws and regulations or proper business conduct that can result in fines or adversely affect the Company's reputation.	Compass	Part of the compliance risks include the unforeseen circumstance that applicable laws and regulations, policies and procedures are not implemented or not implemented on time, or are not complied with. Compass, FrieslandCampina's Code of Conduct for good business behaviour, plays an important role in managing compliance risks. This Code of Conduct and the associated guidelines provide the basic principles for integrity, respect and transparency in the professional behaviour of employees of both FrieslandCampina and any third party that FrieslandCampina does business with. Compliance with this Code of Conduct and the guidelines is supported by training, management compliance statements, confidential counsellors appointed worldwide, an Integrity Committee and a reporting platform that is available to employees 24/7 to express their concern regarding suspected or actual infringement of the Code of Conduct or a guideline.

Risk Appetite

The general risk appetite describes the nature and size of the risks the Company is prepared to take in realising its business objectives. FrieslandCampina's general risk appetite depends on the risk categories, as set out in the table below. The section 'Key Risks and Uncertainties' includes a more detailed description of risk appetite.

Risk Category and Risk Appetite

Risk Category	General Risk Appetite
	Het bedrijf is bereid een zekere mate van gecalculeerde risico's te nemen in verband met het realiseren van zijn prestatiedoelen.
Strategic	The Company is prepared to take a certain degree of calculated risks relating to the realisation of its performance objectives.
Operational	The Company attempts to minimise the impact of unforeseen disruptions on its activities.
Financial	The Company has a conservative and sound framework of financial policies and procedures to prevent risks - that could have a significant impact on the financial results - and material misstatements in its financial reporting.
Compliance	The Company applies a zero tolerance policy. Violations of the Code of Conduct are addressed quickly and firmly.

Governance (lines of defence)

The Executive Board of the Company has final responsibility for effectively controlling risks. To support the Executive Board, the responsibilities for risk management are delegated in accordance with the three lines of defence model (see table). To support the evaluation of the effectiveness of measures, the Executive Board is regularly informed by the corporate departments (second line) about the progress and outcomes of the various risk management programmes. Corporate Internal Audit independently reports at least four times per year to the Executive Board and to the Audit Committee about the effectiveness of risk management.

The Audit Committee informs the Supervisory Board of the Company about risks. The role of the Audit Committee is described in the 'Corporate Governance' section.

Lines of Defence Model

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

Risk Management Framework Improvements

In 2017, the risk management process was further strengthened, including the implementation of new tooling to better facilitate the risk and control assessments. Furthermore, programmes were initiated to enhance risk and control awareness throughout the entire company. The segregation of duties and the central monitoring of data (dashboards and data analysis) were intensified.

Key Risks and Uncertainties

FrieslandCampina is active in a significant number of countries and product-market combinations. As a result, the Company is confronted with inherent risks, such as the volatility of currencies and market price developments, and country-specific economic and geopolitical risks. These risks for the Company as a whole are mitigated through the diversification of activities. Nevertheless, FrieslandCampina has programmes to manage these inherent risks, such as the forecasting and commercial planning processes designed to anticipate economic and price developments. The Company makes use of policies designed to hedge currency risks and to centrally control financial risks. Management teams in the key countries are responsible for monitoring and managing country-specific risks, supported by officers who maintain contacts with local governments and regulatory authorities.

A summary of the key and specific risks with which FrieslandCampina is confronted that could impact the realisation of its objectives, and the measures designed to mitigate these risks are contained in the table below. In addition, FrieslandCampina could be adversely affected by other risks of which we were not aware when this report was prepared.

Key Risks and Uncertainties [1]

Risks	Key Risk Factors	Potential Consequences	Risk Acceptance	Mitigating Measures
Process disruptions (O) Disruption of critical operational business processes due to natural disasters or due to man-made hazards.	• Unusual events (for example, floods, volcanic eruptions, earthquakes, animal diseases) • Risk concentration (own sites, suppliers, logistics service providers) • Limited alternative options	Malfunctions can have a significant adverse impact on the continuity of business processes and can result in the temporary loss of revenue. If they persist for extended periods of time, this can result in the loss of market share.	**Moderate** FrieslandCampina aims to limit the impact of unforeseen disruptions on its business operations. This risk of natural disasters will always be present, in spite of continuous efforts designed to limit such risks.	• Production@Risk Programme for the continuity of processes at company sites • Supply@Risk Programme for unforeseen circumstances with respect to the supply of goods and services • Animal disease protocols • Insurance programme, inspections and audits • Evaluation and upgrade of alternative options for infant nutrition in Europe, China and Southeast Asia
Financial and economic (F) Unfavourable development of the Company's financial position due to (external) economic conditions.	• Unfavourable currency developments (for example, Nigeria, Middle East) • Delayed economic growth in emerging markets • Price developments of raw materials and energy • Severe competition due to excess capacity	Negative economic developments can have a direct impact on the Company's profitability and financial position.	**Moderate** The Company is prepared to accept a moderate impact of external developments on its financial position (indicator: 5%-10% of total EBIT).	• Procedures for planning, budgeting, forecasting and assessing business operations • Cash flow and working capital management programme • Monitoring of economic developments and sensitivity analysis • Risk Committee to oversee financial risks • Coordinated treasury and currency management. See notes on financial risk management on page 86
Personnel (O) Inability to attract, develop and retain talented personnel to safeguard sustainable business performance.	• Scarcity of expertise on the labour market (for example, technologies) • New ways of working (flexibilisation) • Potential loss of crucial experience • Failure to build up/maintain a performance culture • Greying population	Inability to attract, develop and retain talented personnel can have a negative impact on the Company's ability to successfully implement its strategy.	**Moderate** FrieslandCampina is prepared to accept a moderate level of risk as long as this does not endanger the Company's business continuity or its strategic long-term goals.	• Performance and talent management processes actively managed by the respective leadership teams • Renewed leadership development programmes in 2018 (for example, Leading Performance) • Training and development programmes of the internal FrieslandCampina Academy • Further system and process improvement, including Shared Services
Information technology and security (O, C) Failure of IT systems or breach of security infrastructure.	• System concentration (for example, SAP) • Malfunction or failure of IT systems • Presence of obsolete systems • Cyber threats and other forms of breach • Loss of confidential information, protection of personal data	Failure can result in the disruption of business processes, loss of confidential information, and financial and reputation loss.	**Low to none** The Company accepts minor operational malfunctions, provided this does not adversely affect customers. FrieslandCampina aims to at all times comply with applicable laws and regulations.	• Business continuity procedures, including backup and recovery • Further strengthening of information security measures • Segmentation of internal networks • Internal IT security expertise • IT audits and testing • Communication campaign to increase employee awareness • Mandatory cyber security e-learning for employees • Insurance programme.

[1] Risk objectives: Strategic (S), Operational (O), Financial (F) and Compliance (C) risks.

Risks	Key Risk Factors	Potential Consequences	Risk Acceptance	Mitigating Measures
Innovation (S) Ability to renew the product range and to successfully respond to changing consumer preferences.	• Greater demand for specific products that require diversification • Increasing interest in health and nutrition (for example, less sugar) • Time-to-market of the innovation process • Digital marketing	Inability to meet consumer demand will result in lower revenue and profit, and possible loss of market share and brand value over the longer term.	**Moderate** The Company is prepared to accept a moderate level of risk as long as this does not endanger the Company's strategic long-term goals.	• Programmes for the analysis of consumer trends (market research, focus groups, preference testing) • Processes designed to manage the innovation funnel and product development projects • Innovation Centre and collaboration, for example with Wageningen University • Relocation of responsibility for product development to business groups (closer to the market)
Milk supply (S) Size of the milk supply not related to clear market demand or greater than milk processing capacity.	• Substantial growth in milk supply • Unpredictability of milk supply • Insufficient milk processing capacity • Volatility of the price of basic dairy products	The prices of basic dairy products would come under significant pressure and major investments in additional processing capacity would result in lower return, with lower milk prices for member dairy farmers as a consequence.	**Moderate** FrieslandCampina is prepared to accept risks up to a certain level agreed to with member dairy farmers.	• Focus on the increasing sale of added value products, autonomously or through means of acquisitions • Temporary measures in 2017 and work towards a permanent measure with the Members' Council to effect an optimal balance between supply and demand • Investments in additional milk processing capacity • Improved forecasting methods
Agility of the organisation (S) Responsiveness and decisiveness to anticipate changes in market conditions and demand.	• Faster and less predictable changes in market conditions • Local competitors with small organisations • Complexity caused by organisation structure • Speed of decision-making and project execution	Lack of responsiveness, quality and efficiency in execution resulting in a higher cost structure can result in missed market opportunities.	**Moderate** The Company is prepared to accept a moderate level of risk as long as this does not endanger the Company's strategic long-term goals.	• Transformation programme initiated in 2017, to simplify the organisation structure and processes, to be completed in 2018 • Leading for Performance -Programme to be initiated in 2018 • Reinforce World Class Operations Management (WCOM) for supply chain activities and Continuous Improvement Programmes for other processes
Product quality and food safety (O, C) Poor product quality or product contamination that causes health hazards for consumers.	• Increasingly strict quality criteria to be met by food producers • Production process problems that cause quality defects • Increasing communication speed through social media • Deliberate spread of (unfounded) quality problems by third parties	A quality problem or even a change in the perception of quality by consumers or government organisations can have serious consequences for the Company's reputation and market position.	**None** FrieslandCampina maintains the highest food quality and food safety standards. Consumers' health must not be endangered under any circumstances.	• The Foqus quality programme at the Company's own facilities, at member dairy farmers' dairy farms and suppliers, including regular audits • Golden Quality Rules implemented worldwide • Higher quality investments in production (approx. 50 million euros in 2017) • Transparent management reporting of quality trends and incidents throughout the organisation. • Ongoing quality awareness reinforcement campaigns.

Risks	Key Risk Factors	Potential Consequences	Risk Acceptance	Mitigating Measures
Legislation and regulations (C) Increasing laws and regulations (internationally, nationally, regionally and locally).	• Health, food safety and sustainability guidelines, including local and regional differentiation • WHO Code that constrains the propagation of infant nutrition • Stricter Chinese registration requirements for infant nutrition • Changes in taxation (for example, excise duty on sugar)	Changes in laws and regulations can result in an increase in operating costs or tax rates. Failure to adhere to applicable laws and regulations can ultimately result in fines or endanger the continuity of certain business operations.	**Low to none** The Company aims to comply with all applicable laws and regulations and applies a zero tolerance policy. The Company attempts to limit the financial impact of changed regulations.	• Strengthening of positions responsible for government and regulatory affairs and closely tracking regulatory developments in key countries (including China, Southeast Asia and Africa) • The Compass Code for good business conduct has been implemented, including communication campaigns and mandatory e-learning • Management compliance statements relating to the Code of Conduct • Also see mitigating measures for reputation loss
Reputation (S) Potential reputation loss due to incidents or changes in public opinion.	• Increased importance of public opinion, media and publicity • Public interest in the development of the dairy sector • Social media and transparency of information • International character of the product portfolio • Unfounded or fake news in the media	If an incident (for example, a problem in the sector) is not effectively managed, this can result in trade restrictions or significant reputation loss, and loss of market share and revenue in key international markets.	**Low to none** The Company is prepared to accept a moderate level of risk as long as this does not endanger the Company's strategic long-term goals.	• Proactive involvement and communication with stakeholders (for example, governments, sector associations, NGOs) • Sustainability and dairy development programmes • Campaigns that support *nourishing by nature* • Communication procedures and resources • Media and reputation tracking • Repressive measures, such as crisis management, training and testing

FrieslandCampina and income tax expense

FrieslandCampina takes its tax payment obligations seriously. This is in accordance with our aspiration of being and staying financially healthy over the short term and in twenty years' to come. It is also consistent with the aim of living in harmony with nature and society.

Tax legislation and regulations
At FrieslandCampina employees are required to behave in accordance with the standards and values set out in Compass: our guide for good business conduct. Among other things, this means that we aim for the timely, correct and full compliance with tax legislation in all jurisdictions in which we operate. We do not only follow the letter, but also the spirit of the tax legislation and regulations that apply to our operations.

Tax position in the financial statements
The accuracy and completeness of the numbers are essential for managing the Company and necessary for taking sound business decisions. This is why it is important that FrieslandCampina provides its stakeholders with reliable information. Financial, as well as non-financial numbers must be transparent, correct, complete and up-to-date. Furthermore, financial reporting must be in accordance with local laws and regulations and Group accounting policies.

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

Transfer pricing
Intercompany transactions are subject to internal transfer pricing guidelines. These internal guidelines are in accordance with the internationally agreed upon at arm's length principle set out in the OECD transfer pricing guidelines. It is FrieslandCampina's ambition to document the at arm's length conduct of relevant transactions by signing bilateral or unilateral transfer pricing agreements with tax authorities. FrieslandCampina has embraced the base erosion and profit shifting (BEPS) initiative and has elaborated on this in its transfer pricing documentation to ensure compliance with published guidelines, including the country report.

Tax management and risk management
FrieslandCampina's tax policy and tax control framework promote a culture of consistent, coherent and compliant tax conduct with a view to creating a sustainable and predictable tax position. FrieslandCampina is convinced that building professional relationships with tax authorities based on mutual respect, transparency and trust contributes to this predictability. If possible, this is confirmed in a cooperative compliance regulation. FrieslandCampina's Corporate Tax Department reports at least twice a year to the Audit Committee.

Report of the Supervisory Board

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

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

During the year under review, the Supervisory Board carried out its tasks in accordance with the applicable laws and regulations and the Articles of Association of the Company.

Financial statements and profit appropriation

In the meeting of the Supervisory Board of 16 February 2018, the Supervisory Board discussed the 2017 financial statements with the Executive Board, and approved the financial statements, after obtaining the advice of the Audit Committee, which had earlier discussed the financial statements in February. The financial statements were audited by PricewaterhouseCoopers Accountants N.V., which provided an unqualified auditor's statement, and will be presented for adoption to the General Meeting of Shareholders of 29 March 2018. Of the 227 million euro profit, 31 million euros will be attributed to the non-controlling interests and 143 million euros will be added to the retained earnings. The remaining profit will be appropriated as follows: 44 million euros will be reserved for the interest payments to holders of member bonds and 9 million euros will be reserved for the interest payment on the Cooperative's loan to the Company.

The General Meeting of Shareholders will also be asked to discharge the members of the Executive Board for their management during the 2017 financial year. Furthermore, the General Meeting of Shareholders will be asked to discharge the members of the Supervisory Board for their supervision of the Executive Board during the 2017 financial year.

On 29 March 2018, the Members' Council of Zuivel-coöperatie FrieslandCampina U.A. (the 'Cooperative') will be asked to grant approval of the decision to adopt the 2017 financial statements of Royal FrieslandCampina N.V., including the profit appropriation. This decision is taken by the Board of the Cooperative, which exercises the Cooperative's shareholders' rights and functions as the General Meeting of Shareholders of the Company.

Supervisory Board: composition, independence and diversity

Composition and independence

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

The composition of the Supervisory Board and its committees as at 16 February 2018 is shown on page 128 to 130. The composition of the Supervisory Board changed during the year under review.

On 13 April 2017, Peter Elverding retired early for health reasons. Peter Elverding has been a member of the Supervisory Board since 2008 and also was Chairman of the Remuneration & Appointment Committee. With his retirement, FrieslandCampina bids farewell to an experienced and able supervisory director who has made an exceptionally valuable contribution to the development of FrieslandCampina since the merger in 2008. FrieslandCampina owes him a great debt of gratitude for his efforts and involvement in the Company. The Supervisory Board and the Executive Board were deeply affected by the passing of Peter Elverding on 31 August 2017.

Peter Elverding is succeeded by Wout Dekker who was appointed on 1 July 2017.

Jan Keijsers, whose statutory term expired, stepped down on 19 December 2017. Jan Keijsers was not eligible for reappointment and was succeeded by Cor Hoogeveen on the same date. From 2006, Jan Keijsers occupied various management positions within various legal predecessors of the current FrieslandCampina and from December 2014 to the end of 2016, was Vice-chairman of the Supervisory Board. The Board owes him a great debt of gratitude for his important contribution to the supervision of the Company and to the discussions of the Board.

Diversity of the Supervisory Board

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

Two of the internal members of the Supervisory Board are women. This in any case secures the representation of women members (approximately 18 percent) within the Cooperative. In 2017, two male supervisory directors were appointed as member of the Supervisory Board as a direct consequence of their appointment as member of the Board of the Cooperative by the Cooperative's Members' Council. Furthermore, two male supervisory directors were reappointed, one of whom again due to his reappointment as member of the Board of the Cooperative. The aim for a balanced participation of women and men was taken into consideration in these appointments and reappointments. For a subsequent vacancy on the Supervisory Board, the Remuneration & Appointment Committee in its search criteria shall once again specifically indicate that female candidates are desired for the position.

Meetings and activities of the Supervisory Board

The Supervisory Board met eleven times during the year under review.

Outside the regular meetings there was also contact among members of the Supervisory Board, as well as with members of the Executive Board. To prepare for the meetings, the Chairman and Vice-chairman regularly spoke with the Chief Executive Officer (CEO), among others.

A key and often recurring topic of attention over the past year was the organisational restructuring. The Supervisory Board devoted a great deal of attention to the changes to

Attendance during meetings:

Supervisory Board Members	Meetings of the Supervisory Board (11)	Meetings of the Audit Committee (4)	Meetings of the Remuneration & Appointment Committee (11)
J.W. Addink-Berendsen	11/11	4/4	N/A
W. Dekker (appointed as at 1/7/2017)	6/6	N/A	6/6
B.E.G. ten Doeschot	11/11	N/A	N/A
P.A.F.W. Elverding (stepped down as at 13/4/2017)	0/2	N/A	3/3
L.W. Gunning	10/11	N/A	N/A
H.T.J. Hettinga	11/11	N/A	N/A
D.R. Hooft Graafland (Acting Chairman and member of the Remuneration & Appointment Committee)	11/11	4/4	6/8
C.C.H. Hoogeveen (appointed as at 19/12/2017)	N/A	N/A	N/A
A.A.M. Huijben-Pijnenburg	11/11	4/4	N/A
F.A.M. Keurentjes	11/11	N/A	11/11
J.P.C. Keijsers (stepped down as at 19/12/2017)	10/11	N/A	11/11
G. Mulder	11/11	N/A	N/A
H. Stöcker	11/11	N/A	N/A
B. van der Veer	11/11	4/4	N/A
W.M. Wunnekink	10/11	N/A	N/A

the Group structure as proposed by the Executive Board and was intensively involved in the adjustments of the governance structure, which required attention due to the implementation of the programme. In this respect the Supervisory Board was of the opinion that a structure with a smaller Executive Board, supported by an Executive Leadership Team for day-to-day operations, would be a good fit in support of the objectives of the transformation. Namely, a versatile organisation able to respond quickly to market changes. In this respect it is fitting for the management of the four business groups to be able to fully focus on their activities. Furthermore, the Company is managed by a two-headed Executive Board focused on various aspects, such as managing performance and talent development. For these changes to the governance structure, the Board, among other things, gave due consideration to the importance of having sufficient insight into and access to the operational management of the business groups, as this is deemed necessary for the Board to exercise its supervisory function. In this respect, it was also decided that the appointment of the members of the Executive Leadership Team would be subject to the Board's approval. In adjusting the governance structure, due consideration was also provided to the changed Governance Code, which the Company applies on a voluntary basis. The 'Corporate Governance' section includes a comprehensive overview of the corporate governance structure to go into effect on 1 January 2018.

The agenda of the Supervisory Board furthermore contained topics such as the Company's strategy, financial position and the development of the results of the Company and the business groups, whereby the Audit Committee reported on its findings to the Board. The annual budget, acquisitions, major investment proposals and the progress of major investment projects, management changes and the internal risk management received due attention.
In February of the year under review, the 2016 financial statements and the text of the Annual Report were discussed with the Executive Board and the external auditor, and approved by the Board. The report concerning the findings for the first half-year and the management letter were explained by the external auditor and discussed with management.
It was noted that a proper process was always followed and that the coordination between management and the external auditor was good. The report did not contain any material points of attention. Improvements in the Internal Control Framework were observed, which functioned efficiently. The importance of ongoing and regular testing of this framework was emphasised and endorsed by management.

In 2017, special attention was furthermore devoted to the following topics:

- The Board was regularly informed about the state of affairs of the Chinese joint venture Friesland Huishan Dairy, whose joint venture partner ran into serious financial difficulties in 2017. The Board was also informed about the progress of other activities in China.
- During discussions of strategy-related progress, attention was devoted to the use of special supplements, among other things.
- The Board was also informed of the actions relating to sustainability. The importance of an integrated approach by the Company and the Cooperative was emphasised in this respect.
- During the review of the historical analysis of major investment projects, the Board discussed whether and to what extent the assumptions made in the investment proposals were correct.
- The Board approved the sale of the Riedel fruit juices and fruit drinks activities. In addition, the Board approved the refinancing of the ongoing credit facility and the issue of a Euro Commercial Paper Programme to a maximum amount of 1 billion euros.
- The balance between the supply of members' milk and the Company's processing capacity was discussed, as well as potential measures to promote this balance.
- The Cooperative's strategy was set out, and its relationship with the Company's strategy was discussed.

In September 2017, the Supervisory Board visited FrieslandCampina's subsidiary in Greece. During this visit, the Board also devoted attention to the course of business operations and the strategic and other plans of the Greek subsidiary, and of the subsidiaries in Hungary and Romania. In addition, the strategy of the German subsidiary, FrieslandCampina Germany, was presented and discussed during this visit. The Board also approved the planned closure of the Gütersloh site. In October 2017, a working visit was made to the production facility in Borculo, the Netherlands. Several initiatives were discussed during this visit, including the almost completed expansion and replacement project. The Ingredients business group also made various presentations.

Topics such as remuneration, composition of the Supervisory Board, diversity, as well as the evaluation of the performance of the Executive Board were discussed in the absence of the Executive Board. A great deal of attention was devoted to changes in the composition of the Executive Board and the formation of an Executive Leadership Team, as well as the remuneration policy consistent with this new executive structure. These subjects were always prepared in advance by the Remuneration & Appointment Committee. During these closed meetings, the meetings of the Supervisory Board were also evaluated and certain topics were the subject of further reflection.

In 2017, the Supervisory Board spent a great deal of time on evaluating its own performance and that of its members and committees. The Board used an elaborate questionnaire in support of the evaluation process, which was completed by all members and which addressed various dimensions of the performance of the Board and its committees. The findings were discussed by the Board. In addition, the Board formulated agreements for improving a number of aspects, such as the selection of agenda items and the time spent on various topics. In general, the Board is satisfied with its own performance. In relation to topics concerning appointments, succession and the evaluation of members of the Executive Board, the Board decided it wants to be more involved than it has been in the past. The performance of each member of the Board also received elaborate attention and members received individual feedback from the Chairman of the Supervisory Board and the Chairman of the Remuneration & Appointment Committee.

Supervisory Board Committees

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

Audit Committee

Composition and expertise

As at 16 February 2018, the Audit Committee consists of Ben van der Veer (Chairman), René Hooft Graafland, Sandra Addink-Berendsen and Angelique Huijben-Pijnenburg. Furthermore, other internal Board members attend the meetings of the Audit Committee as observer on a rotating basis. Ben van der Veer and René Hooft Graafland each qualify as financial expert in the sense of the Supervisory Board's regulations.

Activities

During the year under review, the Audit Committee met four times in the presence of management, including the CEO and CFO. The external auditor was also present at these meetings. There also was contact among the members of the Committee and with management, outside the meetings. After each meeting, the Chairman reported to the Board on the findings of the Audit Committee. In addition, the Audit Committee met twice during the year with the external auditor in the absence of management.

The 2016 Annual Report and financial statements for that year were discussed, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report. During discussions of the Company's results, the annual and semi-annual reports, the Audit Committee in particular devoted attention to the more technical reporting aspects. Furthermore, the aim of gradually integrating the annual report and the sustainability report was discussed during the year under review.

The planned activities of the external auditor were discussed on the basis of the external auditor's Audit Plan, which was approved by the Audit Committee, always concerning the preceding period. The 2017 half-year report, the findings of the external auditor concerning the half-year report and the interim audit findings were extensively covered during the year under review. The list of assignments provided to the external auditor by the Company was approved by the Audit Committee on four occasions during the year under review. The Audit Committee was also of the view that the external auditor maintained its independence.

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

Budapest and Kuala Lumpur is progressing well. In addition to providing financial services, these centres will also be accommodating procurement and ICT activities. Specific accounting subjects that were the topic of discussion included the completion of the technical financial reporting aspects of the acquisition of the 51 percent interest in Engro Foods, the financial reporting implications relating to the financial difficulties of the joint venture partner China Huishan Dairy and the execution of the annual goodwill impairment test.

In relation to ICT, specific attention was devoted to cyber security and the status of the actions required to increase cyber security. In relation to industrial automation, the findings resulting from several pilot implementations relating to cyber security and business continuity were presented. In addition, the approach to phasing in the required improvements at production facilities was discussed. The progress of the Summit Project was regularly discussed. The Committee noted that the risks and costs are under control and that the implementations are going well.

An overview of material claims was also discussed and management reported on compliance with the FrieslandCampina Code of Conduct, Compass.
The Audit Committee issued a positive recommendation to the Supervisory Board concerning the Company's public credit rating. In addition, the Audit Committee also issued a positive recommendation concerning the refinancing of the Company by issuing short-term commercial debt securities up to an amount of 1 billion euros and the adjustment of the committed credit facility with a bank syndicate, also in the amount of 1 billion euros. Furthermore, the aim of gradually integrating the annual report and the sustainability report was discussed.

The 2017 Annual Report and financial statements were discussed in February 2018, as was the external auditor's report concerning the financial statements and the Executive Board's statement of executive responsibility included in the Annual Report.

Remuneration & Appointment Committee

Composition

As at 16 February 2018, the Remuneration & Appointment Committee consists of Wout Dekker (Chairman), Frans Keurentjes and Erwin Wunnekink. Effective 13 April 2017, the composition of the Remuneration & Appointment Committee was changed due to the early retirement of Peter Elverding for health reasons, and effective 19 December 2017, due to the stepping down of Jan Keijsers. He is succeeded in this Committee by Erwin Wunnekink. Peter Elverding was replaced on an interim basis as member and chairman of the Committee by René Hooft Graafland, who remained Acting Chairman until the end of the year. Wout Dekker joined the Committee on 1 July 2017. He assumed the chairmanship of the Committee on 1 January 2018.

Activities

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

The key activities during the year under review consisted of preparing the decision-making by the Supervisory Board concerning changes to the corporate governance structure. It was decided to opt for a smaller Executive Board, supported by an Executive Leadership Team, the associated change in the composition of the Executive Board and the required adjustments to the remuneration policy. In addition, the Committee spoke with each member of the Executive Leadership Team. The Committee also discussed planned adjustments to key HR processes with management.

In addition to the evaluation of the members of the Executive Board, the Committee made the necessary preparations for the evaluation of the Supervisory Board, its committees and individual members. The Committee conducted evaluation reviews with each member of the Supervisory Board, during the year under review.

The more regular activities of the Remuneration & Appointment Committee during the year under review pertained to the remuneration of the Executive Board. In this respect the Committee addressed matters such as the determination of the variable short-term and long-term remuneration and the setting of targets for the variable short-term remuneration for the upcoming year. In April 2017, the details concerning the remuneration of the members of the Executive Board and the Supervisory Board were reported to the Members' Council of Zuivelcoöperatie FrieslandCampina U.A.

Composition and diversity of Executive Board and Executive Leadership Team

Composition of the Executive Board

The composition of the Executive Board drastically changed in 2017. The first change was the resignation of Tine Snels effective 31 August 2017. The remaining changes all went into effect on 1 January 2018, and concern the resignation of Piet Hilarides, Bas van den Berg, Roelof Joosten and Roel van Neerbos, and the appointment of Jaska de Bakker.

Tine Snels joined FrieslandCampina in July 2012 and was responsible for the Ingredients business group since July 2015. In June 2016, she was appointed Chief Operating Officer and member of the Executive Board. We thank Tine Snels for her commitment and involvement in the years she worked for FrieslandCampina. Tine played a key role in further development of the Ingredients business group as a producer of infant nutrition and nutritional and functional ingredients.
As per 1 October 2017, Kathy Fortmann took over the management of this business group. Effective 1 January 2018, Kathy Fortmann became a member of the Executive Leadership Team. Prior to that date Roelof Joosten was responsible for this business group.

Piet Hilarides and **Bas van den Berg**, by mutual agreement with the Company, also decided to leave FrieslandCampina, effective 31 December 2017. We wish to thank both Piet Hilarides and Bas van den Berg for their dedication, commitment and excellent contribution to the development of FrieslandCampina.
Piet Hilarides occupied various positions within FrieslandCampina and its predecessors for a period of 23 years.He served as Chief Operating Officer responsible for the Cheese, Butter & Milkpowder business group and in his last position as Chief Operating Officer was responsible for the Consumer Products Asia business group. Under his leadership, the activities that formed part of the Cheese, Butter & Milkpowder business group were successfully integrated after the merger. In addition, he achieved significant improvements in the results of the Consumer Products Asia business group.

Bas van den Berg commenced working for a predecessor of FrieslandCampina in 1994. He occupied various positions at FrieslandCampina. In his last position he was responsible for the Cheese, Butter & Milkpowder business group as Chief Operating Officer. Bas van den Berg played a key role in profiling FrieslandCampina in the Benelux and in a number of Asian countries. In recent years he was successful in valorising the increased milk volumes.

Roelof Joosten relinquished his position as Chief Executive Officer and member of the Executive Board, effective 31 December 2017. Roelof Joosten was appointed Chief Executive Officer of FrieslandCampina on 1 June 2015. In 2012, he became a member of the Executive Board and as Chief Operating Officer he was responsible for the Ingredients business group. Roelof Joosten commenced employment with a FrieslandCampina predecessor in 2004. He initiated key changes by updating the *route2020* strategy and the recently announced organisational restructuring. Under his leadership, the sale of infant nutrition significantly developed, particularly in China. The Supervisory Board is particularly grateful to Roelof Joosten for his efforts, commitment and results-oriented approach during all these years.

Hein Schumacher was appointed as Chief Executive Officer of the Company, effective 1 January 2018. Hein Schumacher has been a member of the Executive Board and Chief Financial Officer of the Company since 1 January 2015, and was succeeded in that position by **Jaska de Bakker** on 1 January 2018.

Effective 1 January 2018, the Executive Board consists of two members. Due to the reduction of the Executive Board to two members, **Roel van Neerbos** stepped down as a member of the Executive Board, effective 1 January 2018. On this same date, he was appointed President of the new Consumer Dairy business group and became a member of the Executive Leadership Team.

Composition of the Executive Leadership Team

Effective 1 January 2018, in the context of the organisational restructuring, four new business groups were created (Consumer Dairy, Specialised Nutrition, Ingredients and Dairy Essentials) replacing the existing business groups. The presidents of these business groups joined the newly created Executive Leadership Team effective 1 January 2018. The Executive Leadership Team also includes the members of the Executive Board, as well as the president of FrieslandCampina China, and the corporate directors of Research & Development, Human Resources and Supply Chain.

The composition of the Executive Board and the distribution of the portfolio among its members as at 16 February 2018, is reported on page 131.

Diversity of the Executive Board and Executive Leadership Team

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

Effective 1 January 2018, the Executive Board consists of one male and one female member. Effective on this same date, the Executive Leadership Team consists of six male and four female members, including the members of the Executive Board. In general the preference is to recruit internal candidates, as such it is important that the ranks below the Executive Board include sufficient female talent. FrieslandCampina pursues a diversity policy focused on increasing the number of women in these ranks.

A word of thanks

The Supervisory Board is very grateful to the members of the Executive Board and to all employees of FrieslandCampina for their efforts and dedication in 2017.

Supervisory Board

Amersfoort (Netherlands), 16 February 2018

Roster of Appointments and Retirements of the Supervisory Board

(as at 19 December 2017)

	Start Date	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
J.W. Addink-Berendsen	2014	›				›				‹			
W. Dekker #	2017			›				›		›		‹	
B.E.G. ten Doeschot	2015		›				›				‹		
L.W. Gunning #	2011		›		›		‹				*		
H.T.J. Hettinga	2016			›				›				‹	
D.R. Hooft Graafland #	2015	›				›		›		‹			
C.C.H. Hoogeveen	2017				›				›				‹
A.A.M. Huijben-Pijnenburg	2010	›				‹				*			
F.A.M. Keurentjes	2008	‹[1]				*				›			
G. Mulder	2016			›				›				‹	
H. Stöcker	2011		›				‹				*		
B. van der Veer #	2009		›		‹				*				›
W.M. Wunnekink	2009				‹				*				›

› stepping down, eligible for reappointment
‹ stepping down, ineligible for reappointment
‹[1] stepping down, however eligible for reappointment as Chairman for an additional term under the Articles of Association
* successor of current member, stepping down, eligible for reappointment
# terms of Supervisory Board members who at the same time are not members of the Board of the Cooperative, follow the Corporate Governance Code: two terms of four years, followed by two terms of two years.

Financial statements 2017

Contents

Consolidated income statement

In millions of euros	Note	2017	2016
Revenue	(2)	12,110	11,001
Cost of goods sold	(3)	-10,191	-9,075
Gross profit		**1,919**	1,926
Advertising and promotion costs	(3)	-536	-540
Selling and general administrative costs	(3)	-867	-810
Other operating costs	(4)	-155	-46
Other operating income	(4)	83	33
Operating profit		**444**	563
Finance income	(5)	10	18
Finance costs	(5)	-68	-59
Share of profit of joint ventures and associates, net of tax	(10)	21	20
Profit before tax		**407**	542
Income tax	(6)	-180	-180
Profit for the year		**227**	362
Profit attributable to:			
• holders of member bonds		44	44
• provider of Cooperative loan		9	9
• shareholder		143	229
• shareholder and other providers of capital		**196**	282
• non-controlling interests		31	80
Profit for the year		**227**	362

Consolidated statement of comprehensive income

In millions of euros		2017		2016
Profit for the year		**227**		362
Items that will or may be reclassified to the income statement:				
Effective portion of cash flow hedges, net of tax	8		-8	
Currency translation differences, net of tax	-203		-10	
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 in other comprehensive income of joint ventures and associates accounted for using the equity method, net of tax	-3		2	
		-225		-13
Items that will never be reclassified to the income statement:				
Remeasurement of liabilities (assets) under defined benefit plans, net of tax	8		-34	
		8		-34
Other comprehensive income, net of tax		**-217**		-47
Total comprehensive income for the year		**10**		315
Total comprehensive income attributable to:				
• shareholder and other providers of capital		19		243
• non-controlling interests		-9		72

Consolidated statement of financial position

At 31 December, in millions of euros	Note	2017	2016 [1]
Assets			
Property, plant and equipment	(7)	3,208	3,228
Intangible assets	(8)	1,757	1,924
Biological assets	(9)	8	8
Deferred tax assets	(18)	301	344
Joint ventures and associates	(10)	123	126
Employee benefits	(17)	10	6
Other financial assets	(11)	42	165
Non-current assets		**5,449**	5,801
Inventories	(12)	1,518	1,527
Trade and other receivables	(13)	1,655	1,392
Income tax receivable		29	28
Other financial assets	(11)	35	51
Cash and cash equivalents	(14)	356	514
Assets held for sale	(15)	4	5
Current assets		**3,597**	3,517
Total assets		**9,046**	9,318
Equity			
Issued capital		370	370
Share premium		114	114
Other reserves		-236	-51
Retained earnings		1,039	876
Equity attributable to shareholder		**1,287**	1,309
Member bonds		1,596	1,564
Cooperative loan		295	296
Equity attributable to shareholder and other providers of capital		**3,178**	3,169
Non-controlling interests		334	446
Total equity	(16)	**3,512**	3,615
Liabilities			
Employee benefits	(17)	475	539
Deferred tax liabilities	(18)	181	221
Provisions	(19)	14	14
Interest-bearing borrowings	(20)	999	1,152
Other financial liabilities	(21)	109	98
Non-current liabilities		**1,778**	2,024
Interest-bearing borrowings	(20)	661	558
Trade and other payables	(22)	2,891	2,907
Income tax payable		138	170
Provisions	(19)	62	36
Other financial liabilities	(21)	4	8
Current liabilities		**3,756**	3,679
Total liabilities		**5,534**	5,703
Total equity and liabilities		**9,046**	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 Note 1 for a disclosure of the adjustment of the purchase price allocation.

Consolidated statement of cash flows

In millions of euros	Note		2017		2016
Cash flows from operating activities					
Profit before tax			**407**		542
Adjustments for:					
• interest	(5)	35		28	
• depreciation of plant and equipment and amortisation of intangible assets	(7) (8)	368		307	
• impairments of fixed and intangible assets and reversals of impairments	(7) (8) (15)	75		22	
• impairments of other financial assets	(11)	27			
• share of profit of joint ventures and associates	(10)	-21		-20	
• other finance income and costs		15		10	
• issue of member bonds		32		135	
• gain on disposals		-72		-28	
• insurance compensation granted		-10			
Total adjustments			**449**		454
Movements in:					
• inventories		-57		-196	
• receivables		-89		-77	
• liabilities		-94		318	
• employee benefits		-46		-32	
• provisions	(19)	26		-16	
Total movements			**-260**		-3
Cash flows from operating activities			**596**		993
Dividends received			22		20
Income tax paid			-162		-140
Interest paid			-49		-40
Interest received			11		17
Net cash flows from operating activities			**418**		850
Investing activities					
Investments in property, plant and equipment and intangible assets		-530		-567	
Disposals of property, plant and equipment, intangible assets and assets held for sale		25		26	
Divestments of businesses, net of cash and cash equivalents		71		30	
Received repayments of loans issued		4		2	
Loans issued		-14		-22	
Acquisitions, net of cash and cash equivalents acquired	(1)	-7		-423	
Investments in and divestments of securities	(11)	31		-1	
Insurance compensation received - non-current assets		6			
Net cash flows used in investing activities			**-414**		-955
Financing activities					
Dividends paid to non-controlling interests		-103		-77	
Interest payment to holders of member bonds		-37		-36	
Interest-bearing borrowings drawn		1,886		709	
Repayment of interest-bearing borrowings		-1,843		-902	
Transactions with holder of put option	(26)	-8		80	
Payment of contingent consideration	(26)	-17			
Settlement of derivatives and other		6		-1	
Net cash flows used in financing activities			**-116**		-227
Net cash flow			**-112**		-332
Cash and cash equivalents at 1 January [1]			354		718
Net cash flow			-112		-332
Currency translation differences on cash and cash equivalents			-49		-32
Cash and cash equivalents at 31 December [1]			**193**		354

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

Consolidated statement of changes in equity

In millions of euros											**2017**
					Other reserves						
	Issued capital	Share premium reserve	Member bonds	Coopera-tive loan	Fair value reserve	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity** [1]	Non-con-trolling interests	**Total**
At 1 January	370	114	1,564	296	27	-33	-45	876	**3,169**	446	**3,615**
Comprehensive income:											
• profit for the year			44	9				143	**196**	31	**227**
• other comprehensive income					-27	8	-166	8	**-177**	-40	**-217**
Total comprehensive income for the year			**44**	**9**	**-27**	**8**	**-166**	**151**	**19**	**-9**	**10**
Transactions with shareholder and other providers of capital recognised directly in equity:											
• dividends paid to non-controlling interests										-103	**-103**
• interest paid to provider of Cooperative loan				-10				2	**-8**		**-8**
• interest paid to holders of member bonds			-44					10	**-34**		**-34**
• issue of member bonds			32						**32**		**32**
Total transactions with shareholder and other providers of capital			**-12**	**-10**				**12**	**-10**	**-103**	**-113**
At 31 December	**370**	**114**	**1,596**	**295**		**-25**	**-211**	**1,039**	**3,178**	**334**	**3,512**

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

In millions of euros

2016 [2]

					Other reserves						
	Issued capital	Share premium reserve	Member bonds	Coopera-tive loan	Fair value reserve	Cash flow hedge reserve	Currency translation reserve	Retained earnings	**Equity** [1]	Non-con-trolling interests	**Total**
At 1 January	370	114	1,428	296	24	-25	-45	670	2,832	261	3,093
Comprehensive income:											
• profit for the year			44	9				229	282	80	362
• other comprehensive income					3	-8		-34	-39	-8	-47
Total comprehensive income for the year			44	9	3	-8		195	243	72	315
Transactions with shareholder and other providers of capital recognised directly in equity:											
• dividends paid to non-controlling interests										-77	-77
• interest paid to provider of Cooperative loan				-9				2	-7		-7
• interest paid to holders of member bonds			-43					9	-34		-34
• issue of member bonds – fixed			135						135		135
Total transactions with shareholder and other providers of capital			92	-9				11	94	-77	17
Changes in ownership interests in subsidiaries:											
• acquisition of subsidiary with non-controlling interest										190	190
Total changes in ownership interests in subsidiaries										190	190
At 31 December	370	114	1,564	296	27	-33	-45	876	3,169	446	3,615

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

[2] The presentation of the comparative figures for 2016 has been adjusted due to the final purchase price allocation relating to Engro Foods Ltd. See Note 1 for an explanation of the adjustment of the purchase price allocation.

Notes to the consolidated financial statements

In millions of euros, unless stated otherwise

General

Royal FrieslandCampina N.V. has its registered office in Amersfoort, the Netherlands. The address is: Stationsplein 4, 3818 LE, Amersfoort, the Netherlands. The Company is registered in the Chamber of Commerce's Trade Register, No. 11057544. The consolidated financial statements for the year ended 31 December 2017 comprise the financial statements of Royal FrieslandCampina N.V. and its subsidiaries (jointly referred to as FrieslandCampina).

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

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

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

Basis of preparation

The key accounting policies for financial reporting are included in Note 29.

Statement of compliance

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

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

After authorisation for issue by the Executive Board and the Supervisory Board on 16 February 2018 the financial statements of Royal FrieslandCampina N.V. as at 31 December 2017 will be made available for publication by the Executive Board on 22 February 2017. On 29 March 2018 the financial statements will be submitted for approval to the General Meeting of Shareholders of Royal FrieslandCampina N.V. being Zuivelcoöperatie FrieslandCampina U.A., represented by its Board.

Basis of measurement

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

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

Functional and presentation currency

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

Judgements, estimates and assumptions

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

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

- impairments (Notes 7, 8, 11 and 15);
- useful life of property, plant and equipment and intangible assets (Notes 7 and 8);
- utilisation of tax losses and uncertain tax positions (Notes 6, 18 and 23);
- measurement of defined benefit obligations (Note 17);
- key assumptions used in discounted cash flow projections (Notes 8 and 26);
- valuation of put option liabilities (Note 26)
- provisions and contingencies (Notes 19 and 23);
- key assumptions used to determine the fair value of business combinations and financial instruments (Notes 1 and 26).

Consolidation of entities

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

FrieslandCampina holds an 82.30% interest in CSK Food Enrichment C.V. and CSK Food Enrichment B.V. and a 74.53% interest in Het Kaasmerk B.V. In these associates, FrieslandCampina holds less than half of the voting rights and, as a result, FrieslandCampina has no control over these entities. These interests are accounted for using the equity method.

On 5 January 2017, FrieslandCampina acquired a 100% interest in A-ware Workum B.V. This entity is therefore fully consolidated as of that date.

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

1 Acquisitions

Acquisition 2017

Acquisition A-ware Workum B.V.

On 5 January 2017, FrieslandCampina acquired 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 the 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'.

Acquisition 2016

The acquisition made in 2016 for which the purchase price allocation was completed in 2017, is disclosed below.

Engro Foods

The purchase price allocation relating to the acquisition of a 51% interest in Engro Foods Ltd. ('Engro Foods') was finalised at the end of June 2017. The final purchase price allocation resulted in a change in the fair value of the intangible assets acquired and the goodwill recognised. The fair value of the customer relations and brands is reduced by EUR 87 million, mainly due to analysis 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 payables	-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 proportionate share in the fair value of identifiable net assets	219	-29	**190**
Fair value of identifiable assets and liabilities	-446	58	**-388**
Goodwill	**209**	**31**	**240**

2 Revenue

Revenue by geographical location of customers

	2017		2016	
		%		%
The Netherlands	2,836	23	2,521	23
Germany	1,171	10	1,052	10
Rest of Europe	2,856	24	2,473	22
Asia and Oceania	3,834	32	3,523	32
Africa and the Middle East	976	8	1,053	10
North and South America	437	3	379	3
	12,110	**100**	11,001	100

Revenue primarily consists of the sale of goods.

3 Operating expenses

	2017	2016
Milk from member dairy farmers	-4,346	-3,544
Cost of other raw materials, consumables used and commodities	-3,521	-3,273
Employee benefit expenses	-1,103	-1,074
Depreciation of plant and equipment and amortisation of intangible assets	-368	-307
Impairments of property, plant and equipment, intangible assets and assets held for sale	-44	-23
Advertising and promotion costs	-536	-540
Transport costs	-509	-497
Work contracted out and temporary staff	-330	-321
Energy costs	-191	-199
Other	-646	-647
Total of the cost of goods sold, advertising and promotion costs and selling, general and administrative costs	**-11,594**	-10,425

In 2017 research and development expenses amounted to EUR 81 million (2016: EUR 74 million), of which EUR 45 million related to employee costs (2016: EUR 44 million).

Operational lease expenses of EUR 66 million (2106: EUR 64 million) are included in the operating expenses.

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

Employee benefit expenses

	2017		2016	
		%		%
Wages and salaries	-895	81	-868	81
Social security charges	-111	10	-108	10
Expenses under long-term employee benefits	-97	9	-98	9
	-1,103	**100**	-1,074	100

Employees by business group (average number of FTEs)

		2017		2016
		%		%
Consumer Products EMEA	7,160	30	7,313	33
Consumer Products Asia	7,773	33	6,190	28
Consumer Products China	1,153	5	1,101	5
Cheese, Butter & Milkpowder	2,723	11	2,720	13
Ingredients	3,060	13	3,094	14
Corporate and other	1,806	8	1,509	7
	23,675	**100**	21,927	100

Employees by geographical region (average number of FTEs)

		2017		2016
		%		%
The Netherlands	7,604	32	7,523	34
Germany	1,603	7	1,602	7
Rest of Europe	3,774	16	3,797	17
Asia and Oceania	9,518	40	7,786	36
Africa and the Middle East	1,010	4	1,050	5
North and South America	166	1	169	1
	23,675	**100**	21,927	100

4 Other operating costs and income

	2017	2016
Other operating costs		
Costs of implementing the ICT standardisation programme	-27	-31
Restructuring costs and release of restructuring provisions	-47	4
Impairment of fixed assets (and reversals thereof) due to restructuring (Note 7)	-31	1
Impairment of securities (Note 11)	-27	
Other operating costs	-23	-20
	-155	-46
Other operating income		
Income related to the disposal of property, plant and equipment and divestment of businesses	63	28
Gain on divestment of securities (Note 11)	9	
WAMCO fire insurance compensation	10	
Income arising from a fair value adjustment of contingent considerations (Note 26)		3
Other operating income	1	2
	83	33

Divestment fruit juices and fruit drink activities

On 10 November 2017, FrieslandCampina completed the divestment of its fruit juice and fruit drink activities in the Netherlands and Belgium to Standard Investment. This business unit, located in Ede, the Netherlands, produces and sells fruit juices and drinks under brand names such as Appelsientje, CoolBest, DubbelFrisss, DubbelDrank, Taksi and Extran. In 2016, Riedel realised a revenue of approximately EUR 125 million with 200 employees.

The fruit juice and fruit drink activities in the Netherlands and Belgium were no longer consolidated as of November 2017. The results up to the date of the divestment are recognised in the income statement.
This divestment resulted in a gain of EUR 49 million.

Fair value of the consideration	**87**
Assets transferred	-73
Liabilities transferred	35
Gain on divestment of business	**49**

WAMCO fire insurance compensation

On 6 January 2017, FrieslandCampina WAMCO Nigeria PLC ('WAMCO') production facility in Lagos was hit by a fire that damaged the evaporated milk production hall. As a result of this fire, buildings and equipment were impaired by a total of EUR 1 million. Production was resumed during 2017. In 2017, the insurance companies granted EUR 10 million as compensation for material damage. The compensation for business interruption in 2017 has not yet been determined.

5 Finance income and costs

	2017	2016
Finance income		
Interest income	10	11
Other finance income		7
	10	18
Finance costs		
Interest expenses	-45	-39
Foreign exchange losses on receivables and payables	-2	-14
Other finance costs	-21	-6
	-68	-59

Other finance costs, among other things, comprise the result from hedging derivatives of EUR 7 million (2016: gain of EUR 7 million) and the amortisation of transaction costs of EUR 7 million (2016: EUR 4 million). In addition, the other finance costs consist of adjustments to the hedge reserves of the cross currency swaps and finance costs relating to the termination of hedge accounting on interest rate swaps (total EUR 4 million), and of the interest accrued on put option liabilities amounting to EUR 3 million (2016: EUR 2 million).

Foreign exchange results related to operational activities are included in the cost of goods sold or in the appropriate component of operating expenses. In 2017, FrieslandCampina included a negative foreign exchange result in operating profit of EUR 41 million (2016: EUR 34 million negative).

6 Income tax expense

	2017	2016
Breakdown of tax expense		
Current tax expense, current year	-145	-164
Adjustment for prior years	7	3
Current tax expense	**-138**	-161
Deferred tax expense, current year	-4	6
Adjustments to deferred taxes, attributable to changes in tax rates	5	
Write-down of deferred tax assets	-43	-25
Deferred tax expense	**-42**	-19
Income tax expense	**-180**	-180

	2017		2016	
Effective tax rate	Amount	%	Amount	%
Profit before tax	407		542	
Tax payable on the basis of the Dutch tax rate	-102	25.0	-136	25.0
Effect of different tax rates outside The Netherlands	6	-1.5	-2	0.4
Effect change in tax rates	5	-1.2		
Share of result of joint ventures and associates	6	-1.5	6	-1.1
Withholding tax on dividends	-12	2.9	-10	1.9
Non-deductible expenses	-50	12.3	-17	3.2
Tax-exempt income	3	-0.7	1	-0.2
Write-down of deferred tax assets	-43	10.6	-25	4.6
Adjustments to estimates relating to prior years	7	-1.7	3	-0.6
Effective tax rate	**-180**	**44.2**	-180	33.2

	2017			2016		
	Before tax	Tax expense/ income	Net of tax	Before tax	Tax expense/ income	Net of tax
Income tax recognised directly in equity						
Interest Cooperative loan	-9	2	-7	-9	2	-7
Interest member bonds	-44	10	-34	-44	9	-35
	-53	**12**	**-41**	-53	11	-42
Income tax recognised in other comprehensive income						
Movement cash flow hedge reserve	11	-3	8	-11	3	-8
Movement currency translation reserve	-210	7	-203	-11	1	-10
Movement joint ventures and associates accounted for using the equity method	-3		-3	2		2
Movement available-for-sale financial assets	-33	6	-27	3		3
Remeasurement of liabilities (assets) under defined benefit plans	11	-3	8	-44	10	-34
	-224	**7**	**-217**	-61	14	-47

7 Property, plant and equipment

2017

	Land and buildings	Plant and equipment	Other operating assets	Assets under construction	**Total**
Cost	1,582	3,824	404	570	**6,380**
Accumulated depreciation and impairments	-720	-2,166	-266		**-3,152**
Carrying amount at 1 January	**862**	**1,658**	**138**	**570**	**3,228**
Acquired through acquisition	1	1			**2**
Additions	6	22	12	434	**474**
Disposals		-2	-1		**-3**
Currency translation differences	-26	-55	-5	-10	**-96**
Transfers	100	288	34	-429	**-7**
Transfer to assets held for sale	-9	-6	-4	-1	**-20**
Depreciation	-62	-195	-39		**-296**
Impairments	-28	-41	-7		**-76**
Reversal of impairments		2			**2**
Carrying amount at 31 December	**844**	**1,672**	**128**	**564**	**3,208**
Cost	1,595	3,887	401	564	**6,447**
Accumulated depreciation and impairments	-751	-2,215	-273		**-3,239**
Carrying amount at 31 December	**844**	**1,672**	**128**	**564**	**3,208**

2016

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

The movement due to 'Acquired through acquisition' concerns property, plant and equipment of A-ware Workum B.V. (2016: Engro Foods), see Note 1.

The investments of EUR 474 million relate primarily to production capacity expansions and replacement investments in the Netherlands.

Of the impairments, EUR 31 million relates to the announced closure of the production facility in Gütersloh, Germany. In addition, due to the financial problems of the partner in the Friesland Huishan Dairy joint venture, the utilisation of the joint venture's plant declined and the roll-out of the business plan has been delayed. This has resulted in the impairment of property, plant and equipment of EUR 36 million. The other impairments of plant and equipment relates to production lines whose utilisation rate has significantly declined or assets that have been decommissioned.

The transfer to assets held for sale primarily relates to the sale of the fruit juice and fruit drink activities. See Note 4 for a further explanation.

The carrying amount of property, plant and equipment for which financial lease agreements apply is EUR 5 million (2016: EUR 7 million).

At the end of the financial year FrieslandCampina was committed to investments in property, plant and equipment amounting to EUR 109 million (2016: EUR 130 million).

The investments include capitalised borrowing costs amounting to EUR 4 million (2016: EUR 5 million). The applicable average interest rate is 1.8% (2016: 2.3%).

8 Intangible assets

					2017
	Goodwill	Trademarks, customer relations and patents	Software	Intangible assets under construction	Total
Cost	1,422	598	261	105	**2,386**
Accumulated amortisation and impairments	-204	-95	-163		**-462**
Carrying amount at 1 January	**1,218**	**503**	**98**	**105**	**1,924**
Additions arising from internal development				32	**32**
Additions			3	22	**25**
Currency translation differences	-59	-64	-1		**-124**
Transfers			60	-53	**7**
Transfers to assets held for sale	-33				**-33**
Amortisation		-31	-41		**-72**
Impairments			-1	-1	**-2**
Carrying amount at 31 December	**1,126**	**408**	**118**	**105**	**1,757**
Cost	1,330	527	292	105	**2,254**
Accumulated amortisation and impairments	-204	-119	-174		**-497**
Carrying amount at 31 December	**1,126**	**408**	**118**	**105**	**1,757**

						2016
	Goodwill	Trademarks, customer relations and patents	Software	Other intangible assets	Intangible assets under construction	Total
Cost	1,188	306	223	3	92	1,812
Accumulated amortisation and impairments	-204	-79	-142	-1	-3	-429
Carrying amount at 1 January	984	227	81	2	89	1,383
Acquired through acquisition	240	296				536
Disposal due to divestment of businesses	-3			-1		-4
Additions arising from internal development					46	46
Additions			5		12	17
Currency translation differences	-3	-3	1			-5
Transfers			43	-1	-42	
Amortisation		-17	-32			-49
Carrying amount at 31 December	1,218	503	98		105	1,924
Cost	1,422	598	261		105	2,386
Accumulated amortisation and impairments	-204	-95	-163			-462
Carrying amount at 31 December	1,218	503	98		105	1,924

The movement in goodwill arising from the 'transfer to assets held for sale' totalling EUR 33 million relates to the sale of the fruit juice and fruit drink activities. See Note 4 for a further explanation.

In 2010, FrieslandCampina launched a global ICT standardisation programme. During 2017, an amount of EUR 32 million was capitalised (2016: EUR 38 million). The portion that was still under construction by year-end 2017 was recognised in the movements schedule in the category 'Intangible assets under construction'. The amortisation on the ICT standardisation programme in 2017 amounted to EUR 30 million (2016: EUR 21 million).

In 2012, the system was implemented in the first operating companies and subsequently rolled out to a number of other operating companies. The rollout to the remaining operating companies will take several years and is expected to be completed in 2019.

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

Goodwill impairment test

FrieslandCampina carries out the goodwill impairment test during the second quarter of each year and at another time if there is a trigger for impairment. Goodwill is monitored and tested at business group level. The goodwill impairment test calculates the recoverable amount - the value in use - per business group.

The goodwill allocated to the cash-generating units is as follows:

	2017	2016
Consumer Products EMEA	530	564
Consumer Products Asia	297	350
Consumer Products China	105	109
Cheese, Butter & Milkpowder	33	33
Ingredients	161	162
	1,126	1,218

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

	%		%		%	
	Growth rate terminal value		Average growth rate gross profit		Pre-tax discount rate	
	2017	2016	**2017**	2016	**2017**	2016
Consumer Products EMEA	3.5	2.5	7	4	10	10
Consumer Products Asia [1]	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

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

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

The values in use of the business groups were determined on the basis of the 2017 budget and the long-term plans until 2021. A compensation for the role the business group Cheese, Butter & Milkpowder plays in processing member milk was also taken into account. This compensation by the other business groups serves to cover the loss on processing member dairy farmers' milk in basic dairy products, realised by the business group 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 rates was applied, as is best practice in the market, capped at the forecasted inflation with respect to government bonds.

Sensitivity to changes in assumptions

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

9 Biological assets

The biological assets concern dairy livestock in Pakistan. On 31 December 2017, FrieslandCampina has 3,179 mature dairy cows able to produce milk (2016: 2,895) and 2,332 immature cows that are being raised to produce milk in the future (2016: 2,731).

10 Joint ventures and associates

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

	2017		2016	
	Joint ventures	Associates	Joint ventures	Associates
Carrying amount	83	40	88	38
Share of:				
Profit or loss from continuing operations, net of tax	14	7	16	4
Other comprehensive income	-3		2	
Total comprehensive income	**11**	**7**	18	4

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

The largest joint venture concerns the 50% interest in Betagen Holding Ltd and this interest is accounted for using the equity method. FrieslandCampina's interest in Betagen Holding Ltd. amounts to EUR 65 million (2016: EUR 66 million), of which EUR 30 million goodwill (2016: EUR 30 million), and the share in the 2017 profit amounted to EUR 10 million (2016: EUR 10 million).

For a summary of the most important joint ventures and associates, see page 108.

11 Other financial assets

	2017	2016
Non-current other financial assets		
Loans issued	24	19
Securities	1	84
Derivatives	15	57
Non-current receivables	2	5
	42	165
Current other financial assets		
Derivatives	8	31
Other	27	20
	35	51

A loan of EUR 6 million (2016: EUR 8 million) to the joint venture Great Ocean Ingredients Pty. Ltd. is recorded under other financial assets, of which EUR 5 million (2016: EUR 6 million) is non-current. The average interest rate on the loans issued at the end of 2017 was 2.5% (2016: 2.7%). The maturity date of EUR 14 million of the loans issued is after 2022. All the loans issued are still within their terms.

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. In 2017, the interest was impaired to nil. The original investment in the shares in China Huishan Dairy Holdings Company Ltd. in 2015 amounted to EUR 27 million. The impairment loss from EUR 53 million to the original purchase price of EUR 27 million is recognised in other comprehensive income. The remaining impairment of EUR 27 million is recognised under other operating costs in the income statement.

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

An amount of EUR 27 million (2016: EUR 20 million) is recognised as current other financial assets. Beside the current portion of the loans issued, this mainly concerns funds provided to the logistics service provider as collateral by the subsidiary FrieslandCampina WAMCO Nigeria PLC in order to facilitate currency transactions on behalf of FrieslandCampina.

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

12 Inventories

	2017	2016
Raw materials and consumables used	565	438
Finished goods and commodities	1,024	1,110
Write-down to net realisable value	-71	-21
	1,518	1,527

EUR 300 million (2016: EUR 116 million) of the inventories is valued at net realisable value. The write-down to net realisable value is recognised in the cost of goods sold.

No inventories are pledged as collateral for liabilities.

13 Trade and other receivables

	2017	2016
Trade receivables	1,334	1,169
Other receivables	90	62
Provision for doubtful debts	-17	-30
	1,407	1,201
Receivables related to tax (excluding income tax) and social security contributions	150	131
Prepayments	98	60
	1,655	1,392
Provision for doubtful debts		
At 1 January	-30	-13
Currency translation differences	1	
Charged to the income statement	-5	-21
Released to the income statement	7	2
Trade receivables written off	10	2
At 31 December	**-17**	-30

	2017			2016		
Maturity schedule trade and other receivables	Gross	Write-down	Net	Gross	Write-down	Net
Within payment term	1,201	-5	**1,196**	1,088	-4	1,084
Overdue by less than 3 months	205	-2	**203**	112	-2	110
Overdue by 3 - 6 months	8	-1	**7**	10	-4	6
Overdue by more than 6 months	10	-9	**1**	21	-20	1
	1,424	**-17**	**1,407**	1,231	-30	1,201

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

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

In various countries, FrieslandCampina has taken out credit insurance to mitigate the credit risk related to trade debtors. At the end of 2017, this insured position amounted to EUR 261 million (2016: EUR 351 million). No trades receivables have been pledged.

14 Cash and cash equivalents

	2017	2016
Deposits	101	194
Other cash and cash equivalents	255	320
	356	514

Funds of EUR 36 million (2016: EUR 10 million in Nigeria and EUR 5 million in Greece) specifically designated for intercompany supplies in Nigeria are not freely available. These funds are released once the goods are supplied, normally within 2 to 4 weeks.

15 Assets and liabilities held for sale

	2017	2016
Assets held for sale		
At 1 January	5	20
Transfer from property, plant and equipment	20	1
Transfer from intangible assets	33	
Transfer from current assets	21	
Disposals	-76	-16
Reversal of impairments	1	
At 31 December	**4**	5
Liabilities held for sale		
At 1 January		1
Transfer from current and non-current liabilities	35	
Disposals	-35	-1
At 31 December		

The transfers of assets and liabilities are primarily related to fruit juice and fruit drink activities in the Netherlands and Belgium. See Note 4 for a further explanation.

Assets held for sale at the end of 2017 comprise property, plant and equipment.

The total result on the disposal of assets held for sale amounts to EUR 63 million in 2017 (2016: 31 million). This result is primarily related to the divestment of the fruit juice and fruit drink activities in the Netherlands and Belgium. The remaining result relates to the disposal of land, buildings and equipment in the Netherlands. This result is recognised in other operating income.

16 Equity

Issued capital

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

Share premium reserve

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

Member bonds

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

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

From the profit over the 2017 financial year, EUR 44 million (2016: EUR 44 million) is attributed to the holders of the member bonds as an interest payment. In addition, in 2017 EUR 32 million (2016: EUR 135 million) is attributed to member dairy farmers through the issue of members bonds-fixed and member bonds-free, as part of the compensation for the milk supplied during 2017.

Cooperative loan

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

EUR 9 million of the profit from the 2017 financial year (2016: EUR 9 million) is attributed to the provider of the Cooperative loan as an interest payment.

Other reserves

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

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

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

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

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

Reserve policy
The 2017-2019 reserve policy stipulates that 55% of the Company's profit based on the guaranteed price, as far as it attributes to the shareholder of the Company, will be added to the retained earnings of the Company. As part of the milk supply allowances in 2017, 35% of this profit can be paid out in cash to member dairy farmers as a performance premium and 10% will be distributed to member dairy farmers in the form of member bonds-fixed or in certain cases partly as member bonds-free. In the event of a goodwill impairment greater than EUR 100 million, the Executive Board may decide to add the entire amount to the Company's equity via the profit appropriation. The reserve policy is laid down in the milk price regulation and is revised every three years. After the General Meeting of Shareholders' adoption of the financial statements, the issue of member bonds is finalised. The financial statements are already based on issue of member bonds. The performance premium has also been included in the financial statements and accounted for in cost of goods sold.

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

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

	FrieslandCampina WAMCO Nigeria PLC[1]	Engro Foods Ltd.	China Huishan Dairy Investments (Hong Kong) Ltd.	DMV-Fonterra Excipients GmbH & Co. KG[1]	Dutch Lady Milk Industries Berhad[1]	Other	**2017** **Total**
Non-controlling interest percentage	32.19%	49.00%	50.00%	50.00%	49.04%		
Non-current assets	55	357	49	38	22		
Current assets	162	64	16	67	89		
Non-current liabilities	-6	-118	-12		-2		
Current liabilities	-162	-52	-90	-28	-74		
Net assets	**49**	**251**	**-37**	**77**	**35**		
Carrying amount of non-controlling interest	16	123	-18	132	17	64	**334**
Revenue	432	291	31		229		
Profit for the year	50	-11	-75	58	32		
Other comprehensive income	-24	-63	-1	1			
Total comprehensive income	**26**	**-74**	**-76**	**59**	**32**		
Profit allocated to non-controlling interest	16	-6	-37	31	16	11	**31**
Other comprehensive income allocated to non-controlling interest	-7	-31				-2	**-40**
Dividends paid out to non-controlling interest	14	32		23	15	19	**103**
Net cash from/used in operating activities	143	39	-3		46		
Net cash used in investing activities	-26	-12	-1		-4		
Net cash used in financing activities	-108	-38			-30		
Net cash flows	**9**	**-11**	**-4**		**12**		

[1] As the 2017 results of FrieslandCampina WAMCO Nigeria PLC, DMV-Fonterra Excipients GmbH & Co. KG and Dutch Lady Industries Berhad are not yet publicly available, the 2016 figures have been disclosed. Furthermore, the revenue and cash flows of DMV-Fonterra Excipients GmbH & Co. KG are not publicly available.

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

2016	FrieslandCampina WAMCO Nigeria PLC	Engro Foods Ltd. [1]	China Huishan Dairy Investments (Hong Kong) Ltd.	DMV-Fonterra Excipients GmbH & Co. KG [2]	Dutch Lady Milk Industries Berhad	Other	**Total**
Non-controlling interest percentage	32.19%	49.00%	50.00%	50.00%	49.04%		
Non-current assets	55	455	103	38	22		
Current assets	162	98	22	67	89		
Non-current liabilities	-6	-145	-34		-2		
Current liabilities	-162	-22	-53	-28	-74		
Net assets	49	386	38	77	35		
Carrying amount of non-controlling interest	16	189	19	132	17	73	446
Revenue	432	9	28		229		
Profit for the year	50	-1	-19	58	32		
Other comprehensive income	-24		-2	1			
Total comprehensive income	26	-1	-21	59	32		
Profit allocated to non-controlling interest	16		-10	31	16	27	80
Other comprehensive income allocated to non-controlling interest	-7		-1				-8
Dividend paid out to non-controlling interest	14			23	15	25	77
Net cash from/used in operating activities	143	-7	-14		46		
Net cash used in investing activities	-26		-11		-4		
Net cash from/used in financing activities	-108		26		-30		
Net cash flows	9	-7	1		12		

[1] On 19 December 2016, FrieslandCampina acquired a 51% interest in Engro Foods Ltd., see Note 1. The results and cash flows recorded in the above-referenced table relate to the period following the acquisition of the interest.
[2] The revenue and cash flows of DMV-Fonterra Excipients GmbH & Co. KG are not publicly available.

17 Employee benefits

	2017	2016
Obligations under long-term employee benefits		
Net pension liability	446	512
Other long-term employee benefits	19	21
	465	533

Other long-term employee benefits

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

Net pension liability

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

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

Annual pensionable salary	Pension plan for Dutch employees covered by the Collective Labour Agreement for the dairy sector as from 1 January 2015
Up to EUR 63,829	Collective defined contribution plan based on a fixed contribution and executed by the industry wide pension fund for the dairy sector ('Bedrijfstakpensioenfonds voor de Zuivel')
Between EUR 63,829 and EUR 103,317	Individual defined contribution plan, administered by a premium pension institution
Above EUR 103,317	A net pension savings plan, administered by the same premium pension institution

In connection with the pension situation since 1 January 2015, the accrual of pension benefits in the pension plan for former Campina employees, administered in a company pension fund, and the pension plan for former Friesland Foods employees and FrieslandCampina employees hired in the period between 1 January 2009 up to and including 31 December 2014, administered by an insurance company in a segregated investment fund, has ceased. Relating to the plan for former Campina employees, FrieslandCampina currently only has an obligation to settle a number of smaller guarantee contracts pursuant to the administration agreement. Upon reaching agreement on this issue with the pension fund, FrieslandCampina will have a 'settlement of the full plan'. At that moment the present value of the gross obligation pursuant to the pension benefits ('gross pension liability') and the fair value of the plan assets (at end of 2017 both: EUR 1,466 million) will be released from the net pension liability in the statement of financial position because FrieslandCampina will no longer be exposed to risks. This will not affect the income statement because the current, and at the moment of settlement expected net pension liability (the gross pension liability minus the fair value of plan assets) amounts to nil.

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

The pension plan entitlements accrued until 2015 by former Friesland Foods employees and FrieslandCampina employees concerns a defined benefit plan. At the end of 2017, this plan accounted for 53% of the total gross pension liability (2016: 54%) and is disclosed in more detail below.

Plan characteristics	From 2015 the regular pension accrual has been terminated. Accrued benefits until 2015 for active participants will be annually indexated during the term of the five-year collective agreement (until 2020) by a fixed rate of 1.75%, for as long as the employment continues. Conditional indexation is applicable for non-active participants.
Pension administrator	An insurance company, in a segregated investment fund via a guarantee contract.

Funding agreements	Each year FrieslandCampina pays in total a premium, calculated based on market value, for the indexation of the pensions of active participants. In the four years from 2015 to 2018 FrieslandCampina will pay a fixed amount of EUR 16 million per annum into the segregated fund for the indexation of the pensions of non-active participants. After this four year period, FrieslandCampina will not be liable for any further contributions. Finally, in respect of the segregated investment fund, if the coverage ratio remains lower than the contractual 110% for longer than 18 consecutive months from the end of the calendar year, FrieslandCampina has the obligation to make good the shortfall. At the end of 2017 the coverage ratio was 118.7% determined on the basis of the principles specified in the insurance contract (2016: 121.7%).
Supervision and governance	The insurer is responsible for holding sufficient resources to pay out all accrued benefits. This is supervised by DNB (Dutch National Bank). The investment policy for the insurance contract is determined by the insurer in consultation with FrieslandCampina.
Participants	Approximately 54% of the participants are active, 30% are former employees and 16% are pensioners. The average duration of the pension obligations is around 20 years.
Most significant risks	The most significant risk is that the coverage ratio at the end of the calendar year drops below 110%. If this situation continues for more than 18 consecutive months, FrieslandCampina has the obligation to pay a supplementary premium in order to ensure the funding ratio is restored to at least 110%. As the pension obligations in the contract are calculated on the basis of a fixed interest rate, the movements in the value of plan assets have a significant impact on the coverage ratio.

Pension plan entitlements accrued until 2015 by former Campina employees

The pension plan entitlements accrued until 2015 by former Campina employees concerns a defined benefit plan. At the end of 2017, this plan accounted for 39% (2016: 38%) of the total gross pension liability. During the five year period of the Collective Labour Agreement (until 2020), all the pension benefits accrued by active participants up to 2015 will be granted a fixed 1.75% indexation if and for as long as they remain employed by FrieslandCampina. This 1.75% indexation, which has been insured with an insurance company in a guarantee contract without profit sharing, will be increased by a fixed percentage to cover post-retirement indexation.

Other plans for Dutch employees covered by the Collective Labour Agreement for the dairy sector

In addition to the plans disclosed above, the Dutch employees who were employed at the end of 2005 are also entitled to a supplementary lump-sum contribution, determined on an individual basis, upon retirement from active employment. This conditional lump-sum amount will be awarded in 2021, or on retirement if this is earlier. On the relevant date FrieslandCampina will purchase pension benefits at the rates applicable on that date for these lump-sum amounts. At the end of 2017, this plan accounted for 2% of the total gross pension liability (2016: 2%).

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

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

Foreign employees

In respect of FrieslandCampina's foreign activities, both defined contribution and defined benefit plans are applicable. The most important defined benefit pension plans are the plans in Germany. These are primarily unfunded pension plans based on salary, length of service and fixed amounts that account for 3% (2016: 3%) of FrieslandCampina's total gross pension liability. The accrued benefits are increased each year by a maximum of the price inflation. This is a conditional entitlement depending on the financial position of the relevant company.

Assumptions

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

Assumptions [1]	**2017**	2016
	%	%
Discount rate	1.8 - 2.0	1.7 - 1.9
Wage inflation	n,v,t,	n,v,t,
Price inflation / increase franchise	2.0	2.0
Indexation		
- active employees	1.8	1.8
- former and retired employees	2.0	1.8
Life expectancy	in years	in years
- man / woman age 65 at end of year	20.3 / 23.4	20.1 / 23.3
- man / woman age 65 in 20 years' time	22.8 / 25.8	22.7 / 25.7

[1] The percentages shown concern the above-referenced schemes for the pension entitlements of employees in the Netherlands, and represent 92% (2016: 92%) of the gross pension liability and 98% (2016: 98%) of the fair value of plan assets.

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

Movement in net pension liability

	Gross pension liability		Fair value of plan assets		Net pension liability	
	2017	2016	**2017**	2016	**2017**	2016
At 1 January	**4,010**	3,431	**-3,498**	-2,930	**512**	501
Included in the income statement						
Operating expenses:						
Current service cost	13	13			13	13
Pension plan adjustment	-4	-3			-4	-3
Interest expense or income	74	77	-64	-66	10	11
Administration costs			1	1	1	1
Total	**83**	87	**-63**	-65	**20**	22
Recognised in equity:						
Remeasurement gain or loss due to:						
Return on plan assets, excluding the interest income and adjusted guaranteed value			45	-548	45	-548
Changes in financial assumptions	-33	575			-33	575
Changes in demographic assumptions	-6	4			-6	4
Experience adjustments	-17	14			-17	14
Total remeasurement gain or loss	**-56**	593	**45**	-548	**-11**	45
Currency translation differences	-7	-2	3	1	-4	-1
Total	**-63**	591	**48**	-547	**-15**	44
Other						
Contributions paid by the employer to the plan			-63	-56	-63	-56
Benefits paid	-105	-104	105	104		
Transfer to liabilities held for sale	-8				-8	
Acquired through acquisition		5		-4		1
Total	**-113**	-99	**42**	44	**-71**	-55
At 31 December	**3,917**	4,010	**-3,471**	-3,498	**446**	512
Classification						
Non-current assets					10	6
Non-current liabilities					456	518

At the end of 2017, EUR 239 million of the EUR 3,917 million gross pension liability had not yet been funded (2016: EUR 248 million of the EUR 4,010 million not yet funded). The contributions to the plans of EUR 63 million are the premiums paid by FrieslandCampina in 2017, of which EUR 21 million relates to 2016.

Income and expenses under long-term employee benefits recognised in the income statement	2017	2016
Current service cost	-13	-13
Pension plan adjustment	4	3
Interest expense or income	-10	-11
Administration costs	-1	-1
Defined benefit cost recognised in the income statement	**-20**	-22
Benefit cost for defined contribution plans	-86	-83
Employees' share in pension costs	10	9
Benefit cost recognised in the income statement	**-96**	-96
Expenses under other long-term employee benefits	-1	-2
Expenses under long-term employee benefits recognised in the income statement	**-97**	-98

FrieslandCampina expects to contribute EUR 60 million towards its defined benefit plans in 2018, EUR 16 million of which concerns 2017. Of the remaining EUR 44 million, EUR 23 million is for the plans that provide Dutch employees indexation on the benefits accrued up to 2015. In 2018, FrieslandCampina expects to contribute EUR 85 million towards the defined contribution plans, primarily related to the collective and individual defined contribution plans that apply for Dutch employees.

Disaggregation of the fair value of plan assets into asset classes:		2017		2016
	%	%	%	%
	Company pension fund	Insurance contract	Company pension fund	Insurance contract
Shares				
- North America	9		9	
- Europe	4		4	
- Japan	2		2	
- Emerging Markets	2		2	
- Other	1		1	
Fixed-income securities				
- Investment grade (BBB rating or higher)	20		20	
- Non-investment grade (BB rating or lower)	4		4	
Guaranteed value of insurance contract		55		56
Total	**42**	**55**	42	56

At the end of 2017, the plan assets in the company pension fund and the guaranteed value of the insurance contract amounted to 42% and 55% of the total plan assets respectively (2016: 42% and 56%). Of the plan assets in the company pension fund approximately EUR 15 million is invested in subordinated bonds of Zuivelcoöperatie FrieslandCampina U.A. Of the interest rate risk relating to the company pension fund, 60% is hedged. Of the hedged amount, at the end of 2017 48% is hedged by means of government bonds and 52% by means of interest rate swaps. The collateral of the swap portfolio is invested in a widely spread cash fund with an AAA rating. The currency risk related to the main part of the foreign debt and equity instruments is hedged for 70% to 100%. The value of the plan assets in the insurance contract is based on its guaranteed value. The profit sharing in this contract is, however, determined based on the investments in the segregated investment fund. Approximately 62% of these investments are fixed-income securities, 33% are shares and 5% are other investments. Because the insurer determines the pension obligation at a fixed interest rate, the interest rate hedge is limited. The remaining plan assets compromising 3% of the total amount (2016: 2%) are mainly related to foreign pension plans and consist of insurance contracts and various investments.

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

Effect on the gross pension liability at 31 December		2017		2016
	Increase	Decrease	Increase	Decrease
Change of 0.25% to discount rate	-168	180	-175	187
Change of 0.25% to indexation of former participants	143	-135	149	-141
Change of 1 year to life expectancy	155	-153	160	-159

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

18 Deferred tax assets and liabilities

						2017
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	**Total**
At 1 January	-71	-38	84	108	40	**123**
Recognised through the income statement	-4	3	-10	-16	-15	**-42**
Recognised in equity			-3	4	18	**19**
Currency translation differences	8	20		-8		**20**
At 31 December	**-67**	**-15**	**71**	**88**	**43**	**120**

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

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

						2016
	Property, plant and equipment	Intangible assets	Employee benefits	Inventories, trade receivables, derivatives, trades payables and provisions	Unused tax losses and facilities	Total
At 1 January	-64	56	90	92	49	223
Arising from acquisition	-24	-87		-3		-114
Recognised through the income statement	6	-7	-13	16	-21	-19
Recognised in equity			10	3	12	25
Currency translation differences	5	1	-1			5
Other	6	-1	-2			3
At 31 December	-71	-38	84	108	40	123

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

	Assets	Liabilities	Net
Property, plant and equipment	11	82	-71
Intangible assets	109	147	-38
Employee benefits	89	5	84
Inventories, trade receivables, derivatives, accounts payable and provisions	113	5	108
Unused tax losses and facilities	40		40
Netting	-18	-18	
Net deferred tax asset	344	221	123

At the end of the financial year, the unused tax losses and facilities amounted to EUR 43 million (2016: EUR 40 million) of which EUR 21 million (2016: EUR 21 million) concerned unused tax losses and EUR 22 million (2016: EUR 19 million) concerned unused facilities. Based on long-term planning, it is expected that it will be possible to offset these against future profits.

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

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

	2017	2016
Unrecognised tax losses	58	40
Unrecognised facilities	40	27
	98	67

At the end of the financial year, the nominal value of the unused tax losses amounts to EUR 353 million (2016: EUR 282 million). Of these unrecognised tax losses, EUR 154 million expire within 10 years (2016: EUR 33 million). The remaining unrecognised tax losses and facilities will not elapse under the current fiscal rules.

19 Provisions

			2017			2016
	Restructuring	Other provisions	**Total**	Restructuring	Other provisions	Total
At 1 January	28	22	**50**	48	18	66
Dotations charged to the income statement	49	2	**51**	11	14	25
Released to the income statement	-5	-6	**-11**	-15	-8	-23
Utilisations	-10	-4	**-14**	-16	-2	-18
At 31 December	**62**	**14**	**76**	28	22	50
Non-current provisions	9	5	**14**	5	9	14
Current provisions	53	9	**62**	23	13	36
	62	**14**	**76**	28	22	50

Restructuring provisions

The restructuring provisions at year-end 2017 are primarily related to the announced closure of the production facility in Gütersloh, Germany and FrieslandCampina's organisation transformation programme initiated in 2017. Restructuring provisions, mainly relating to severance payments and associated expenses, were recognised for this purpose in 2017. The closure of Gütersloh forms part of the strategic reorientation in Germany, in which various measures were taken to increase profitability.

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

The amounts released to the income statement totalling EUR 5 million are primarily related to a release from the provision for the production facility in Leeuwarden, because more employees can be redeployed than originally expected at the end of 2016. The utilisations in 2017 are primarily related to provisions for the facilities in Heilbronn (Germany), Sleidinge (Belgium), Rijkevoort and Eindhoven (Netherlands).

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

Other provisions

These provisions primarily relate to received claims and other provisions and are recognised at nominal value as their present value is not materially different. Other provisions include an amount of EUR 1 million (2016: EUR 4 million) for onerous contracts and an amount of EUR 7 million (2016: EUR 12 million) related to claims received.

20 Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

				2017		2016
	Year of maturity	% Nominal interest rate		Carrying amount		Carrying amount
Syndicate (variable interest)	2022	0.3	50		250	
European Investment Bank (fixed interest)	2023-2026	0.7	100		30	
International Finance Corporation (variable interest)	2019-2026	2.9	83			
Other borrowings from credit institutions			121		61	
Borrowings from credit institutions				**354**		341
Private Placement (fixed interest)	2017	4.3			131	
Private Placement (fixed interest)	2020	5.7	110		126	
Private Placement (fixed interest)	2022	4.0	67		76	
Private Placement (fixed interest)	2024	4.2	122		139	
Private Placement (fixed interest)	2017-2027	4.0	170		214	
Borrowings from institutional investors				**469**		686
Green bonds (fixed interest)	2021-2026	0.1	300		300	
Borrowings from holders of green bonds				**300**		300
Euro commercial paper (variable interest)	2018	-0.3	221			
Belgium commercial paper (variable interest)	2017-2018	0.0	25		77	
Other uncommitted facilities (variable interest)	2017-2018	0.1	70		80	
Uncommitted facilities				**316**		157
Fonterra Finance Corporation Ltd. (variable interest)	2017-2025	2.1	14		16	
China Huishan Dairy Holdings (Hong Kong) Ltd. (variable interest)	2017-2018	4.4	16		17	
Borrowings from member dairy farmers (variable interest)	2017-2018	0.5	24		26	
Bank overdrafts (variable interest)	2017-2018	1.4	163		160	
Financial lease liabilities (fixed interest)	2017-2037	6.4	5		8	
Capitalised issue costs	2017-2027		-5		-5	
Other interest-bearing borrowings			4		4	
Other				**221**		226
Interest-bearing borrowings				**1,660**		1,710
Classified as non-current interest-bearing borrowings				999		1,152
Classified as current interest-bearing borrowings				661		558

The nominal value of the interest-bearing borrowings does not deviate from the carrying value. The average interest paid on the interest-bearing borrowings at year-end 2017 is 2.3% (2016: 2.5%).

FrieslandCampina issued a guarantee for a credit facility by pledging the mortgage on the assets of Friesland Huishan Dairy Co. Ltd. At year-end 2017, EUR 36 million had been withdrawn from this facility. No other collateral has been pledged for current or non-current borrowings.

Borrowings from credit institutions
In 2014 FrieslandCampina agreed a new credit facility with a syndicate of financial institutions of EUR 1.5 billion with a term of 5 years. In previous years, the term was extended to April 2021. In the second half of 2017, this credit facility was adjusted on the basis of more favourable conditions due to the public credit ratings issued for FrieslandCampina and was reduced to EUR 1 billion with a 5 year term. On 31 December 2017, EUR 50 million of the credit facility is utilised (2016: EUR 250 million) and is entirely classified as current (2016: EUR 250 million non-current).

In 2016 FrieslandCampina agreed 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 using this facility. The interest rate will be determined at that time and the capitalised issue costs will be amortised over the duration of the loan. An amount of EUR 100 million is drawn from this loan on 31 December 2017 (2016: EUR 30 million).

In November 2016, FrieslandCampina agreed a loan from IFC of a maximum of USD 100 million as part of the acquisition of a 51% interest in Engro Foods. This USD 100 million loan, with a 10-year term, was drawn down in January 2017. This US-dollar liability was converted into a fixed interest rate euro liability on the basis of a cross-currency swap. The cross currency swap was concluded to hedge the cash flows and is subject to cash flow hedge accounting. The cross currency swap is stated at fair value. The portion of the profit or loss realised on these hedge instruments that qualifies as an effective hedge is recognised directly in equity. The USD 100 million loan is fixed at EUR 94 million on the basis of the above-referenced swap.

Borrowings from institutional investors (Private Placements)
FrieslandCampina has taken out privately placed loans with institutional investors in the United States to a total of USD 563 million (2016: USD 696 million and EUR 25 million with an European investor). In 2017, EUR 151 million was repaid.

Cross-currency swaps have been used to convert the USD repayment and interest liabilities related to these borrowings into EUR liabilities at fixed interest rates. The cross-currency swaps were entered into to hedge the cash flows, with application of cash flow hedge accounting. The cross-currency swaps are recognised at fair value. The portion of the gains and losses made on these hedge instruments regarded as effective hedges is recognised directly in equity. The borrowings of USD 563 million (2016: USD 696 million) have been fixed by these swaps at EUR 433 million (2016: EUR 532 million).

On 31 December 2017, the total amount of borrowings from institutional investors (private placements) classified as non-current amounts to EUR 452 million (2016: EUR 535 million) and an amount of EUR 17 million (2016: EUR 151 million) is recognised as current.

Borrowings from holders of green bonds
FrieslandCampina issued green bonds (Green Schuldschein) amounting to EUR 300 million (2016: EUR 300 million), consisting of four tranches at fixed interest rates. The terms vary between 5 and 10 years. These bonds are recognised in the non-current interest-bearing borrowings; issue costs are capitalised and amortised over the duration of the bonds.

Uncommitted facilities
In 2017, FrieslandCampina established a Euro Commercial Paper Programme (ECP). The maximum term of the paper issued is 12 months. At year-end 2017, the drawings under the ECP Programme amounted to EUR 221 million. The existing Belgian commercial paper programme was phased out in the second half of 2017. As at year-end, the remaining liability under this programme was EUR 25 million. An amount of EUR 70 million was drawn down from other uncommitted facilities (2016: EUR 80 million).

Borrowings from member dairy farmers
The borrowings from member dairy farmers amounting to EUR 24 million (2016: EUR 25 million) concern three year deposit loans held by member dairy farmers. These loans are repayable on demand by the member dairy farmers against the payment of a 0.25% interest penalty.

Financial lease liabilities

	2017		2016	
	Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
Less than one year	2	2	6	6
Between 1 and 5 years	2	2	3	2
More than five years	2	1		
	6	**5**	9	8

Of the present value of the minimum lease payments, EUR 2 million is current (2016: EUR 6 million).

21 Other financial liabilities

	2017	2016
Non-current other financial liabilities		
Derivatives	33	1
Contingent considerations		16
Put option liabilities	76	81
	109	98

Current other financial liabilities		
Derivatives	4	8
	4	8

The non-current contingent consideration with respect to the acquisition of the distribution-related activities of the Anika Group was settled in 2017. The long-term put option liability relates to the co-financing of the acquisition of a 51% interest in Engro Foods.

Further information regarding contingent considerations and put option liabilities is included in Note 26.

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

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

Hedging activities				2016
	Maturity date	Assets	Liabilities	Contract volume at year-end
Cross currency swaps	2017	23		107
Cross currency swaps	after 2017	56		555
Interest rate swaps	2019 and 2020		1	250
Total cash flow hedges subject to hedge accounting		79	1	
Cross currency swaps	2017		4	27
Forward exchange contracts	2017	2	4	480
Commodity swaps	2017 and 2018	7		38
Derivatives not subject to hedge accounting		9	8	
Total derivatives		88	9	
Classified as current		31	8	
Classified as non-current		57	1	

Cash flow hedges
To hedge interest rate and currency risks on the borrowings of in total USD 663 million (2016: USD 696 million) cross currency interest rate swaps have been contracted, as a result of which the USD repayment and interest liabilities have been converted into EUR liabilities.

The hedges to which hedge accounting is applied meet the documentation requirements for hedge accounting under IAS 39 and are tested for effectiveness prior to and per the reporting date. These hedges proved to be effective as a result of which, at the end of 2017, EUR -25 million (2016: EUR -33 million) was recognised in equity as cash flow hedge reserve.

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

The interest rate swaps are entered into to convert the floating-interest liabilities on the interest-bearing borrowings of a total of EUR 250 million (2016: 250 million) into fixed-interest liabilities.

To hedge part of the price risk on future expenses for road and sea transportation from the Netherlands-Belgium-Germany area derivatives are entered into to fixate the floating price developments of diesel- and bunker oil for the year 2018.
Also, derivatives were entered into to hedge part of the price risk on future buy and sell positions in milk powder and butter. For a further explanation, see Note 26.

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

22 Trade and other payables

	2017	2016
Owed to member dairy farmers	521	582
Trade payables	1,520	1,575
Payables related to tax (excluding income tax) and social security contributions	64	68
Payables to Zuivelcoöperatie FrieslandCampina U.A.	60	14
Other payables	726	668
	2,891	2,907

23 Commitments and contingencies

				2017
	2018	2019 - 2022	Na 2022	**Totaal**
Operational lease commitments	57	113	33	**203**
Purchase commitments for fixed assets	107	2		**109**
Other commitments	50	37	1	**88**
	214	**152**	**34**	**400**

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

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

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

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

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

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

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

Tax risks

Transfer pricing uncertainties

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

Acquisitions, partnering & divestments

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

Contingent liabilities

Bank guarantees

As of 31 December 2017, FrieslandCampina has provided bank guarantees to third parties amounting to a total of EUR 20 million (2016: EUR 20 million).

Contingent tax liabilities

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

FrieslandCampina estimates the contingent tax liabilities as at 31 December 2017, that are being investigated by tax authorities, at a total of EUR 25 million (2016: EUR 5 million), of which the largest part relates to the treatment of sales tax in Pakistan.

Legal claims

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

Contingent assets

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

24 Transactions with related parties

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

See Note 25 for the remuneration of the Supervisory Board and the Executive Board.

Zuivelcoöperatie FrieslandCampina U.A.

Zuivelcoöperatie FrieslandCampina U.A., the shareholder of the Company, and FrieslandCampina Nederland B.V., a subsidiary of the Company, have agreed that the latter will purchase the milk supplied by the Cooperative's members. In 2017, this was 10.7 billion kilograms (2016: 10.8 billion kilograms). The price to be paid for this milk is based on the weighted average milk price in Germany, the Netherlands, Denmark and Belgium, which represents 54 billion kilograms of milk in total.

Pursuant to the reserve policy, an interim payment was made on the basis of the Company's results for the first half of the year and the quantity of milk supplied. The interim payout amounts to 75% of the pro forma performance premium for the value of the quantity of milk supplied during the first half of the year. The final settlement will take place in March 2018 based on the Company's results for the financial year and the total quantity of milk supplied. See Note 16 for an description of the reserve policy.

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

The relations are specified in the table below:

	2017	2016
Interest on the Cooperative loan	9	9
Interest on member bonds	5	6
Other income	8	7
Cooperative loan	295	296
Member bonds	180	190
Liabilities	60	14

Joint ventures and associates

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

Joint ventures	**2017**	2016
Purchase of raw materials, consumables used and commodities	17	22
Sale of raw materials, consumables used and commodities	2	3
Receivables from joint ventures	7	8
Payables to joint ventures	3	2

Associates		
Purchase of raw materials, consumables used and commodities	45	36
Sale of raw materials, consumables used and commodities	83	62
Receivables from associates	6	10
Payables to associates	3	3

Member dairy farmers

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

	2017	2016
Purchase of raw materials	4,346	3,544
Interest on member bonds	40	38
Member bonds	1,416	1,374
Borrowings from member dairy farmers	545	608

Supervisory Board and Executive Board

The members of the Supervisory Board who are also a member of the Cooperative's Board enter into transactions with FrieslandCampina in their capacity as dairy farmers, including the supply of milk. This results in a liability as at 31 December pursuant to milk supply allowances. The Supervisory Board members are also holders of member bonds. The table below sets out the transactions of the member dairy farmers who were a Supervisory Board member during 2017 and the balance sheet positions with the members who were a Supervisory Board member as at 31 December 2017:

	2017	2016
Purchase of raw materials	4	3
Member bonds	2	2

No transactions took place between FrieslandCampina and the Executive Board other than remuneration. See Note 25 for the remuneration of the Supervisory Board and the Executive Board.

25 Remuneration of the Supervisory Board and the Executive Board

The remuneration of the Supervisory Board and the Executive Board consists of the remuneration of members who were a member of the Supervisory Board or the Executive Board during the reporting year.

	2017	2016
Supervisory Board		
Short-term remuneration	1.1	1.1
	1.1	1.1
Executive Board		
Short-term remuneration	5.5	5.3
Long-term remuneration	1.0	1.7
Termination benefits [1]	7.0	1.7
Pension plans	0.6	0.6
	14.1	9.3

[1] The payment on termination of employment contains a provision of EUR 2.2 million (2016: EUR 1.0 million) for special wage taxes (Article 32bb of the 'Wet op de loonbelasting 1964').

26 Financial risk management and financial instruments

Capital management

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

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

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

Active risk management

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

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

Financial risk management

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

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

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

Netting of financial instruments

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

FrieslandCampina has implemented multiple cash pool systems to facilitate a more efficient management of the daily working capital needs of participating entities. The settlement mechanisms of these cash pools are provided by an external financial institution. The cash pool systems ensure that FrieslandCampina is exposed to the net outstanding amount with that financial institution, rather than the gross amounts of the various current accounts and bank overdrafts at various financial institutions. The outstanding amounts are netted in the cash pool from an operational perspective.

At year-end 2017, EUR 7,967 million of these outstanding amounts have been presented on a net basis on the balance sheet (2016: EUR 4,659 million).

Currency risks

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

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

Exposure to currency risk

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

					2017					2016
	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	SGD/HKD	EUR/USD	EUR/CNY	NGN/USD	IDR/USD	SGD/HKD
Receivables	231	58	1	1	70	276	59	1		94
Cash and cash equivalents	2		2	2		19		5	6	
Liabilities	110	26	84	27		144	14	72	23	
Net statement of financial position	**123**	**32**	**-81**	**-24**	**70**	151	45	-66	-17	94
Forward exchange contracts	135	-4	-6		60	207	76	-11		37
Net exposure 31 December	**-12**	**36**	**-75**	**-24**	**10**	-56	-31	-55	-17	57
Sensitivity analysis										
Impact on profit before tax	-1	2	-4	-1	1	-3	-2	-3	-1	3

Sensitivity analysis

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

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

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

Interest rate risk

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

	2017		2016	
	Carrying amount excluding hedging	Carrying amount including hedging	Carrying amount excluding hedging	Carrying amount including hedging
Interest on borrowings				
Fixed rate	892	1,224	1,016	1,266
Variable rate	768	436	694	444
	1,660	**1,660**	1,710	1,710

FrieslandCampina carried out a sensitivity analysis based on the influence of interest rates on derivatives and other financial instruments at the end of the year. The analysis of cash and cash equivalents and liabilities with variable interest rates was carried out based on the assumption that the outstanding amount at the end of the year had been outstanding throughout the year. This sensitivity analysis indicates that, if interest had risen or fallen by 0.5%, the cumulative interest expense for the current year would have been less than EUR 1 million higher or lower.

Liquidity risk

FrieslandCampina's objective is to maintain a balance between the continuity and flexibility of its funding by using a range of financial instruments. Total net debt should be covered mainly by long-term borrowings and committed credit facilities, which is also maintained as a backup for short-term debt securities. FrieslandCampina manages its liquidity mainly by keeping available a significant amount of headroom under the committed credit facilities totalling EUR 2,002 million (2016: EUR 2,732 million). Of these facilities EUR 1,000 million (2016: EUR 1,465 million) was unused at the end of 2017, which is substantially more than the minimum credit headroom of EUR 350 million required according to FrieslandCampina's financial policy.

Cash flows on financial liabilities

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

					2017
	Carrying amount	Contractual cash flows	2018	2019 - 2022	After 2022
Non-derivative financial liabilities					
Interest-bearing borrowings	1,655	**-1,818**	-681	-452	-685
Financial lease liabilities	5	**-6**	-2	-2	-2
Trade and other payables	2,891	**-2,891**	-2,891		
Put option liabilities	76	**76**			76
Derivates					
Interest rate swaps	2	**-3**	-2	-1	
Cross currency swaps - inflow	31	**484**	34	255	195
Cross currency swaps - outflow		**-516**	-30	-271	-215
Forward exchange - inflow	4	**339**	339		
Forward exchange - outflow		**-340**	-340		
	4,664	**-4,675**	**-3,573**	**-471**	**-631**

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

Credit Risk

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

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

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

Thanks to the spread of geographical areas and product groups, there is no significant concentration of credit risk in FrieslandCampina's trade receivables (no single customer accounts for more than 3% (2016: 2%) of revenue). The total write-offs of trade receivables amount to less than 0.1% of annual revenue. For further information regarding trade receivables, see Note 13.

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

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

	2017		2016	
	Cash positions	Contract volume derivatives	Cash positions	Contract volume derivatives
Credit rating financial institution				
AA	2	93	45	243
A	260	1,226	305	1,207
BBB	13	79	4	2
< BBB	33	6	94	5
No rating	48		66	
	356	**1,404**	514	1,457

Covenant guidelines

Existing guidelines for financial ratios:

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

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

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

	2017	2016
Non-current interest-bearing borrowings	999	1,152
Current interest-bearing borrowings	661	558
Payable to Zuivelcoöperatie FrieslandCampina U.A.	60	14
Cash and cash equivalents	-356	-514
Cash and cash equivalents not freely available	36	15
Net debt	**1,400**	1,225

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

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

2017	Fair value	Expected cash flows	2018	2019 - 2022	After 2022
Cross currency swaps					
Assets	14	**15**	1	14	
Liabilities	31	**-32**	3	-16	-19

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

Accounting classifications and fair values

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: input other than quoted market prices that come under Level 1 that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3: input related to the asset or liability that is not based on observable market data (unobservable input) whereby this input has a significant impact on the outcome.

											2017
	Note	Design-ated at fair value	Fair value hedging instru-ments	Available-for-sale	Loans and receiva-bles	Financial liabilities at amorti-sed cost	**Total carrying amount**	Level 1	Level 2	Level 3	**Total fair value**
Financial assets not measured at fair value											
Loans issued - fixed rate	(11)				43		**43**		43		**43**
Loans issued - variable rate	(11)				8		**8**				
Non-current receivables	(11)				2		**2**				
Trade and other receivables	(13)				1,655		**1,655**				
Cash and cash equivalents	(14)				356		**356**				
					2,064		**2,064**				
Financial assets measured at fair value											
Hedging derivatives	(21)		23				**23**		23		**23**
Securities	(11)			1			**1**			1	**1**
			23	**1**			**24**				
Financial liabilities not measured at fair value											
Interest-bearing borrowings – fixed rate	(20)					892	**892**		940		**940**
Interest-bearing borrowings – variable rate	(20)					768	**768**		771		**771**
Trade and other payables	(22)					2,891	**2,891**				
						4,551	**4,551**				
Financial liabilities measured at fair value											
Hedging derivatives	(21)		37				**37**		37		**37**
Put option liability	(21)	76					**76**			76	**76**
		76	**37**				**113**				

											2016
	Note	Design-ated at fair value	Fair value hedging instru-ments	Available-for-sale	Loans and receiva-bles	Financial liabilities at amorti-sed cost	Total carrying amount	Level 1	Level 2	Level 3	Total fair value
Financial assets not measured at fair value											
Loans issued – fixed rate	(11)				29		29		30		30
Loans issued – variable rate	(11)				10		10				
Non-current receivables	(11)				5		5				
Trade and other receivables	(13)				1,392		1,392				
Cash and cash equivalents	(14)				514		514				
					1,950		1,950				
Financial assets measured at fair value											
Hedging derivatives	(21)		88				88		88		88
Securities	(11)			84			84	83		1	84
			88	84			172				
Financial liabilities not measured at fair value											
Interest-bearing borrowings – fixed rate	(20)					1,015	1,015		1,030		1,030
Interest-bearing borrowings – variable rate	(20)					695	695		698		698
Trade and other payables	(22)					2,908	2,908				
						4,618	4,618				
Financial liabilities measured at fair value											
Hedging derivatives	(21)		9				9		9		9
Put option liability	(21)	81					81			81	81
Contingent considerations	(21)	16					16			16	16
		97	9				106				

To calculate the fair value of the interest-bearing borrowings with a fixed interest rate an average weighted interest rate of 2.7% (2016: 2.9%) is used. The fair value of the loans provided with a fixed interest rate is determined using an average interest rate of 4.7% (2016: 2.7%).

Securities

FrieslandCampina holds a 1.1% interest in China Huishan Dairy Holdings Company Ltd. As a result of the suspension of trading in shares by the Hong Kong Stock Exchange on 24 March 2017, Level 3 instead of Level 1 is used as the measurement method. In 2017 the interest was fully impaired. See Note 11 for a further explanation.

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

Hedging derivatives

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

Put option liabilities

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

During 2017, this put option liability partially redeemed through means of the payment of a dividend in the amount of EUR 6 million by the Dutch legal entity. A remeasurement of the expected exercise price also took place as a result of the adjusted projections of the profit of Engro Foods before interest, taxes, depreciation and amortisation. As a result of these adjusted projections, the expected exercise date in the measurement was set as the first date on which the put option, as well as the call option, held by FrieslandCampina can be exercised.

If the expected profit before interest, taxes, depreciation and amortisation of Engro Foods would have been 10% higher, then FrieslandCampina's profit over 2017 would have been EUR 8 million lower due to the remeasurement of the put option liability.

In 2017, FrieslandCampina acquired the remaining 20% interest in a subsidiary in Italy. As a result, the put option, provided to the co-owner, has expired. The measurement method for this liability was classified as Level 3.

Contingent consideration

In 2017, the criteria for the repayment of the contingent consideration resulting from the acquisition of the distribution-related activities of the Anika Group were met and this contingent consideration was redeemed. The measurement method for this liability was classified as Level 3.

Movements and transfers

During 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
Redemptions	-17	-8	
Finance costs	1	4	
Fair value adjustment		-1	-7
Carrying amount at 31 December		**76**	**1**

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

In 2017, there was a transfer from Level 1 to Level 3 for the securities held in China Huishan Dairy Holdings Company Ltd., as explained above. There were no other transfers from or to levels 1, 2 or 3.

27 Specification of external auditor's fees

			2017
	Pricewaterhouse Coopers Accountants N.V.	Other PwC network	**Total PwC network**
Audit of the financial statements	1.4	1.5	**2.9**
Other audit engagements	0.3	0.1	**0.4**
	1.7	**1.6**	**3.3**

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

28 Subsequent events

On 14 February 2018 FrieslandCampina has acquired 50% of the shares in China Huishan Dairy Investments (Hong Kong) Ltd. from China Huishan Dairy Holdings Company Ltd., which is currently in suspension of payments, for a purchase consideration of USD 2 million. By means of this transaction, FrieslandCampina now has 100% ownership of Friesland Huishan Dairy.

29 Significant accounting policies

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

Changes in accounting policies and disclosures

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

Various amendments were applicable for the first time in 2017 but have no impact on FrieslandCampina's consolidated financial statements.

New and revised standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2017 and not adopted early

New standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these consolidated financial statements. This concerns the following new standards:

IFRS 9 'Financial instruments'

IFRS 9 comprises revised stipulations regarding the classification and measurement of financial instruments, including a new model for anticipated credit losses for the purpose of calculating the devaluation of financial assets, and the new general requirements for hedge accounting. FrieslandCampina assessed the potential impact of applying IFRS 9 to FrieslandCampina's consolidated financial statements. It is not expected that IFRS 9 will have a 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 the retained earnings within equity.
IFRS 9 only affects financial liabilities designated at fair value through the income statement. Since FrieslandCampina does not carry any such financial liabilities, there is no impact on the financial liabilities.

FrieslandCampina has concluded that its current hedge relationships also qualify for hedge accounting under the new rules. In future, 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. Based on its estimates, FrieslandCampina expects a minor increase in the provision for doubtful trade receivables.

This standard was endorsed by the EU and will become effective from 1 January 2018. FrieslandCampina will apply IFRS 9 from 1 January 2018, but will not adjust the 2017 comparative figures.

IFRS 15 'Revenue from contracts with customers'

IFRS 15 provides a single, comprehensive revenue recognition model for all contracts with customers to determine if, how much and when revenue should be recognised. IFRS 15 also includes more extensive disclosure requirements than the current IFRS guidance for revenue. FrieslandCampina assessed the potential impact of applying IFRS 15 to FrieslandCampina's consolidated financial statements. IFRS 15 does not have a significant impact on the result or on equity.

IFRS 15 was endorsed by the EU and will become effective on 1 January 2018. FrieslandCampina will apply IFRS 15 effective from 1 January 2018, but will not adjust the 2017 comparative figures.

IFRS 16 'Leases'

IFRS 16 comprises a uniform accounting method for all lease agreements in the statement of financial position, whereby lessees must include all leased assets and liabilities in the statement of financial position, except leases for a period of (less than) 12 months and lease contracts linked to assets with a limited value. This will mean that the assets and liabilities related to operating leases will be recognised in the statement of financial position. FrieslandCampina is currently assessing the impact of the application of IFRS 16 on the consolidated financial statements of FrieslandCampina. This is expected to be completed in 2018. IFRS 16 is expected to result in a significant increase in assets and lease liabilities for FrieslandCampina. The impact on the result and equity is not expected to be significant.

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

Basis of Consolidation

Business combinations

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

FrieslandCampina measures goodwill at the acquisition date as:

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

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

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

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

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

Acquisition of non-controlling interests

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

Subsidiaries

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

Loss of control

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

Associates and joint ventures

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

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

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

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

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

A list of the principal subsidiaries, joint ventures and associates is included on page 108.

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

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

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

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

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

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

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

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

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

		2017
	At year-end	Average
US dollar	1.20	1.13
Chinese yuan	7.80	7.63
Philippine peso	59.66	56.97
Hong Kong dollar	9.38	8.81
Indonesian rupiah (10.000)	1.62	1.51
Malaysian ringgit	4.84	4.85
Nigerian naira (100)	4.32	3.78
Pakistan rupee	132.46	119.08
Russian rouble	69.28	65.92
Singapore dollar	1.61	1.56
Thai baht	39.08	38.29
Vietnamese dong (10.000)	2.73	2.57

		2016
	At year-end	Average
US dollar	1.05	1.11
Chinese yuan	7.34	7.35
Philippine peso	52.19	52.55
Hong Kong dollar	8.16	8.59
Indonesian rupiah (10.000)	1.42	1.47
Malaysian ringgit	4.72	4.59
Nigerian naira (100)	3.32	2.87
Pakistan roupee	109.74	115.94
Russian rouble	64.72	74.13
Singapore dollar	1.52	1.53
Thai baht	37.68	39.05
Vietnamese dong (10.000)	2.40	2.48

Financial instruments

Non-derivative financial assets

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

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

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

Available-for-sale financial assets

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

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

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

Non-derivative financial liabilities

The initial recognition of financial liabilities (including liabilities designated as fair value through profit and loss) is stated at transaction date. The transaction date is the date on which FrieslandCampina commits to the contractual provisions of the instrument. The fair value, determined for the purpose of the notes, of the liabilities is determined on the basis of the discounted cash flows.

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

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

Derivatives (including derivatives for which hedge accounting is applied)

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

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

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

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

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

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

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

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

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

Equity

Share capital

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

Other financial instruments

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

Dividends

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

Property, plant and equipment

Recognition and measurement

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

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

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

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

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

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

Costs after initial recognition

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

Depreciation

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

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

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

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

Intangible assets and goodwill

Goodwill

Goodwill that arises on the acquisition of subsidiaries is presented as an intangible asset. For the measurement of goodwill at initial recognition, see the basis of consolidation for business combinations. Goodwill is measured at cost less accumulated impairment losses. In respect of investees that are not being consolidated, the carrying amount of goodwill is included in the carrying amount of the joint venture or associate and any impairment loss is allocated to the carrying amount of the joint venture or associate as a whole.

Research and development

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

Other intangible assets

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

Acquisition of intangible assets resulting from a business combination

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

Costs after initial recognition

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

Amortisation

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

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

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

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

Biological assets

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

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

Inventories

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

Acquisition of inventories resulting from a business combination

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

Impairments

Non-derivative financial assets

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

Financial assets measured at amortised cost

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

Financial assets classified as available-for-sale

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

Non-financial assets

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

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

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

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

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

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

Fixed assets or distribution

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

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

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

Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

Other long-term employee benefits

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

Short-term employee benefits

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

Provisions

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

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

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

Net revenue

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

FrieslandCampina has customer loyalty programmes in place, through which customers can earn points when they purchase certain FrieslandCampina products. The points can then be exchanged for discounts on third party goods or services, whereby a minimum number of points applies. The proceeds are allocated to the products sold and the allocated points, whereby the value attributed to the points corresponds with their fair value. The fair value of the value attributed to the points is deferred until the savings points are redeemed, at which point the fair value is recognised as revenue.

Cost of goods sold

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

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

Advertising and promotion costs

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

Selling, general and administrative costs

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

Other operating costs and income

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

Government grants

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

Lease agreements

At the inception of an agreement, FrieslandCampina determines whether such an arrangement is, or contains, a lease. This will be the case if the following two criteria are met: the fulfilment of the agreement depends on the use of a specific asset or assets; and the agreement contains a right to use the asset(s). At inception, or on reassessment of the agreement, FrieslandCampina separates payments and other considerations required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If FrieslandCampina concludes that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an implied finance cost on the liability is recognised using FrieslandCampina's incremental borrowing rate.

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so at to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance income and costs
Finance income comprises interest received on loans and receivables from third parties, dividend income, positive changes to the fair value of financial assets valued at fair value after incorporating changes in value in the income statement, gains on hedging instruments that are recognised in the income statement and reclassifications of amounts previously recognised in other comprehensive income. Interest income is recognised in the income statement as it accrues using the effective interest method.

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

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

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

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

Current tax payable also includes any tax liability arising from the declaration of dividends.

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

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

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

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

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

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

Cash flows

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

Principal subsidiaries, joint ventures and associates[1]

Principal subsidiaries

The Netherlands

FrieslandCampina Creamy Creation B.V., Amersfoort
FrieslandCampina DMV B.V., Amersfoort
FrieslandCampina Domo B.V., Amersfoort
FrieslandCampina International Holding B.V., Amersfoort
FrieslandCampina Kievit B.V., Meppel
FrieslandCampina Nederland B.V., Amersfoort
FrieslandCampina Nutrifeed B.V., Amersfoort
FrieslandCampina Pakistan Holding B.V., Amersfoort (81.69%)
Zijerveld en Veldhuyzen B.V., Bodegraven

Belgium

FrieslandCampina Bree B.V.B.A., Bree
FrieslandCampina Belgium N.V., Aalter
FrieslandCampina Belgium Cheese N.V., Aalter
FrieslandCampina C.V.B.A., Aalter (99.84%)
Yoko Cheese N.V., Genk (99.89%)

Germany

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

France

FrieslandCampina Cheese France S.A.S., Sénas
FrieslandCampina France S.A.S., Saint-Paul-en-Jarez

Greece

FrieslandCampina Hellas S.A., Athens

Hungary

FrieslandCampina Hungária zRt, Budapest (99.99%)

Italy

FrieslandCampina Italy Srl, Verona
Orange Srl, Bari

Austria

FrieslandCampina Austria GmbH, Stainach

Romania

FrieslandCampina Romania S.A., Satu Mare (93.78%)

Russia

Campina LLC, Moscow
FrieslandCampina RU LLC, Moscow

Spain

FrieslandCampina Canarias S.A., Las Palmas
FrieslandCampina Iberia S.L., Barcelona

United Kingdom

FrieslandCampina UK Ltd., Horsham

China

FrieslandCampina Ingredients (Beijing) Co. Ltd., Beijing
FrieslandCampina Ingredients (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Trading (Shanghai) Co. Ltd., Shanghai
FrieslandCampina Branding Management (Shanghai) Co. Ltd., Shanghai

Hong Kong
China Huishan Dairy Investments (Hong Kong) Ltd., Hong Kong (50%)
FrieslandCampina (Hong Kong) Ltd., Hong Kong
Philippines
Alaska Milk Corporation, Makati City (99.86%)
Indonesia
PT Frisian Flag Indonesia, Jakarta (95%)
PT Kievit Indonesia, Jakarta
Malaysia
Dutch Lady Milk Industries Berhad, Petaling Jaya (50.96%)
Pakistan
Engro Foods Ltd., Karachi (51%)
Singapore
FrieslandCampina (Singapore) Pte. Ltd., Singapore
FrieslandCampina AMEA Pte. Ltd., Singapore
Thailand
FrieslandCampina Fresh (Thailand) Co. Ltd., Bangkok
FrieslandCampina (Thailand) PCL, Bangkok (99.71%)
Vietnam
FrieslandCampina Ha Nam Co. Ltd., Phu Ly
FrieslandCampina Vietnam Co. Ltd., Binh Duong province (70%)
Saudi Arabia
FrieslandCampina Saudi Arabia Ltd., Jeddah
United Arab Emirates
FrieslandCampina Middle East DMCC, Dubai
Egypt
FrieslandCampina Egypt Consulting and Trading S.A.E., Cairo
Ghana
FrieslandCampina West Africa Ltd., Accra
Ivory Coast
FrieslandCampina Ivory Coast S.A., Abidjan
Nigeria
FrieslandCampina WAMCO Nigeria PLC, Ikeja (67.81%)
USA
FrieslandCampina Ingredients North America Inc., Paramus, State: New Jersey
K.H. de Jong USA Inc., Secaucus, State: New Jersey

Joint ventures and associates [4]

Betagen Holding Ltd., Hong Kong, China (50%)
Coöperatieve Zuivelinvesteerders U.A., Oudenhoorn, the Netherlands (49.90%)
CSK Food Enrichment C.V., Leeuwarden, the Netherlands (82.33%)
Great Ocean Ingredients Pty. Ltd., Allansford, Victoria, Australia (50%)

[1] Unless where stated otherwise, it concerns a 100% interest. If the percentage is below 100%, the direct interest of the parent company in the relevant subsidiary is stated.
[2] Based on an agreement, FrieslandCampina is entitled to 100% of this company's results.
[3] In diesen Gesellschaften hat FrieslandCampina einen beherrschenden Einfluss. Durch die Einbeziehung in den Konzernabschluss der Royal FrieslandCampina N.V. hat die DMV Fonterra Excipients GmbH & Co. KG als vollkonsolidiertes verbundenes Unternehmen von den Erleichterungen des § 264b HGB Gebrauch gemacht.
[4] FrieslandCampina does not have control over these joint ventures and associates. This consideration was based on an analysis of both the shares and the voting rights held by FrieslandCampina for the relevant joint venture or associate.

Company statement of financial position

As at 31 December, before profit appropriation, in millions of euros

	Note	2017	2016
Assets			
Investments in subsidiaries	(2)	2,400	2,404
Loans to subsidiaries	(3)	1,039	886
Deferred tax assets		8	11
Other financial assets	(8)	20	64
Non-current assets		**3,467**	3,365
Other receivables	(4)	2,745	2,922
Other financial assets	(8)	13	40
Cash and cash equivalents			14
Current assets		**2,758**	2,976
Total assets		**6,225**	6,341
Equity			
Issued capital		370	370
Share premium		114	114
Fair value reserve			27
Statutory cash flow hedge reserve		-25	-33
Statutory currency translation reserve		-211	-45
Statutory reserve for investments in subsidiaries		300	290
Profit for the year attributable to the shareholder		143	229
Retained earnings		596	357
Equity attributable to the shareholder	(5)	**1,287**	1,309
Member bonds		1,596	1,564
Cooperative loan		295	296
Equity attributable to the shareholder and other providers of capital	(5)	**3,178**	3,169
Liabilities			
Interest-bearing borrowings	(6)	933	1,112
Other financial liabilities	(8)	32	1
Non-current liabilities		**965**	1,113
Interest-bearing borrowings	(6)	557	490
Trade and other payables		11	13
Other liabilities	(7)	1,509	1,548
Other financial liabilities	(8)	5	8
Current liabilities		**2,082**	2,059
Total liabilities		**3,047**	3,172
Total equity and liabilities		**6,225**	6,341

Company income statement

In millions of euros

	2017	2016
Share of profit of subsidiaries, net of tax	181	257
Other results, net of tax	15	25
Profit for the year	**196**	282

Notes to the company financial statements

In millions of euros, unless stated otherwise

1 General

Accounting policies and notes

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

See the Notes to the consolidated financial statements for items not included in the Notes to the company financial statements. Investments in subsidiaries are measured using the net asset value.

A statutory reserve has been formed for the retained earnings of subsidiaries where distribution is subject to restrictions.

A list of subsidiaries and other companies in which the Company participates directly or indirectly, is available for inspection at FrieslandCampina's offices and has been filed with the trade registry.

2 Investments in subsidiaries

	2017	2016
At 1 January	2,404	2,179
Profit for the year	181	257
Other comprehensive income	-185	-32
At 31 December	**2,400**	2,404

3 Loans to subsidiaries

	2017	2016
At 1 January	886	362
Reclassification of current loans to other receivables	-34	-282
Loans issued	189	828
Repaid loans	-2	-22
At 31 December	**1,039**	886

			2017			2016
Maturity schedule	2019 - 2022	After 2022	**Total repayments**	2018 - 2021	After 2021	Total repayments
Loans to subsidiaries	1,034	5	**1,039**	879	7	886

The loans issued serve to finance subsidiaries. The current portion of these issued loans is recognised under other receivables. The average interest rate on the total of financing of subsidiaries at the end of 2017 was 1.2% (2016: 1.4%).

4 Other receivables

EUR 2,212 million (2016: EUR 2,190 million) of the other receivables relates to a temporary current account with subsidiaries resulting from the sweep of bank positions within FrieslandCampina and EUR 525 million (2016: EUR 730 million) relates to the current receivables from subsidiaries and the current portion of loans to subsidiaries.

5 Equity attributable to the shareholder and other providers of capital

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

The cash flow hedge reserve and the currency translation reserve are statutory reserves and as such cannot be distributed. Furthermore EUR 300 million (2016: EUR 290 million) has been classified as a statutory reserve for investments in subsidiaries. This statutory reserve concerns, among other items, the implementation costs of the ICT standardisation programme (see Note 8 in the consolidated financial statements) and as such cannot be distributed.

The equity that is attributable to the shareholder and other providers of capital and that is included in the company financial statements is equal to the equity attributable to the shareholder and other providers of capital that is included in the consolidated financial statements. See Note 16 in the consolidated financial statements for more details regarding equity.

6 Interest-bearing borrowings

The terms and conditions of outstanding borrowings are as follows:

				2017		2016
	Year of maturity	% Nominal interest rate		Carrying amount		Carrying amount
Syndicate (variable interest)	2022	0.3	50		250	
European Investment Bank (fixed interest)	2023-2026	0.7	100		30	
International Finance Corporation (variable interest)	2019-2026	2.9	83			
Borrowings from credit institutions				**233**		280
Private Placement (fixed interest)	2017	4.3			131	
Private Placement (fixed interest)	2020	5.7	110		126	
Private Placement (fixed interest)	2022	4.0	67		76	
Private Placement (fixed interest)	2024	4.2	122		139	
Private Placement (fixed interest)	2017-2027	4.0	170		214	
Borrowings from institutional investors				**469**		686
Green bonds (fixed interest)	2021-2026	0.1	300		300	
Borrowings from holders of green bonds				**300**		300
Euro commercial paper (variable interest)	2018	-0.3	221			
Belgium commercial paper (variable interest)	2017-2018	0.0	25		77	
Other uncommitted facilities (variable interest)	2017-2018	0.1	70		80	
Uncommitted facilities				**316**		157
Borrowings from member dairy farmers (variable interest)	2017-2018	0.5	23		25	
Bank overdrafts (variable interest)	2017-2018	1.4	154		158	
Capitalised issue costs	2017-2027		-5		-4	
Other				**172**		179
Interest-bearing borrowings				**1,490**		1,602
Classified as non-current interest-bearing borrowings				933		1,112
Classified as current interest-bearing borrowings				557		490

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

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

7 Current liabilities

EUR 1,449 million (2016: EUR 1,532 million) of the current liabilities concerns a temporary current account with subsidiaries as a result of the sweep of bank positions within FrieslandCampina. In addition a liability to Zuivelcoöperatie FrieslandCampina U.A. of EUR 60 million is recognised (2016: EUR 14 million).

8 Other financial assets and liabilities

	2017	2016
Other financial assets		
Cross currency swaps	14	79
Forward exchange contracts	4	6
Commodity swaps	4	7
Loans issued	7	8
Interest receivable	4	4
	33	104
Other financial liabilities		
Cross currency swaps	31	4
Interest rate swaps	2	1
Forward exchange contracts	4	4
	37	9

The cross currency swaps and interest rate swaps are equal to the consolidated financial statements (see Note 20 of the consolidated financial statements). As a result of derivatives arranged with subsidiaries, the forward exchange contracts recognised in other financial assets in the company financial statements are higher than in the consolidated financial statements. The contract volumes for the forward exchange contracts are EUR 264 million (assets) and EUR 458 million (liabilities) (2016: EUR 434 million and EUR 302 million respectively).

9 Financial instruments

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

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

Fair value

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

	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets not measured at fair value				
Loans to subsidiaries	1,039	1,039	886	886
Other receivables	2,745	2,745	2,922	2,922
Other financial assets (excluding hedging derivatives)	11	11	12	12
Cash and cash equivalents			14	14
	3,795	**3,795**	3,834	3,834
Financial assets measured at fair value				
Hedging derivatives	22	22	92	92
	22	**22**	92	92
Financial liabilities not measured at fair value				
Interest-bearing borrowings – fixed rate	867	871	1,015	1,030
Interest-bearing borrowings – variable rate	623	626	587	590
Current payables to subsidiaries	1,509	1,509	1,548	1,548
Trade and other payables	11	11	13	13
	3,010	**3,017**	3,163	3,181
Financial liabilities measured at fair value				
Hedging derivatives	37	37	9	9
	37	**37**	9	9

10 Commitments and contingencies

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

FrieslandCampina N.V., together with the majority of the Dutch operating companies and Zuivelcoöperatie FrieslandCampina U.A., forms the fiscal unity Zuivelcoöperatie FrieslandCampina U.A. for VAT and income tax. On these grounds the Company is severally liable for the tax liability of the fiscal unity as a whole.

11 Remuneration of the Supervisory Board and the Statutory Directors

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

12 Subsequent events

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

13 Proposed appropriation of profit attributable to the shareholder

The Supervisory Board has approved the Executive Board's proposal that of the EUR 196 million profit, EUR 9 million is reserved as interest compensation for the Cooperative loan, EUR 44 million is reserved as interest compensation on the member bonds and EUR 143 million is added to the retained earnings.

Amersfoort, the Netherlands, 16 February 2018

Executive Board
Royal FrieslandCampina N.V.
H.M.A. Schumacher, CEO
J.M. de Bakker, CFO

Supervisory Board
Royal FrieslandCampina N.V.
F.A.M. Keurentjes, Chairman
W.M. Wunnekink, Vice-chairman
J.W. Addink-Berendsen
W. Dekker
B.E.G. ten Doeschot
L.W. Gunning
H.T.J. Hettinga
D.R. Hooft Graafland
C.C.H. Hoogeveen
A.A.M. Huijben-Pijnenburg
G. Mulder
H. Stöcker
B. van der Veer

Other information

Provisions of the Articles of Association governing profit appropriation

The provisions regarding the appropriation of profit are included in Article 28 of the Articles of Association. These can be summarised as follows: profit will be distributed after adoption of the financial statements showing such distribution to be legitimate. The profit will be at the disposal of the General Meeting of Shareholders. The General Meeting will adopt the Company's reserve policy, as included in Article 27 of the Articles of Association, on a proposal from the Executive Board approved by the Supervisory Board. Distributions chargeable to a reserve may be made on a proposal from the Executive Board, which will be subject to the approval of the Supervisory Board, pursuant to a resolution passed by the General Meeting. Unretained profit will be distributed.

Independent auditor's report

To: the general meeting of Shareholders and Supervisory Board of Royal FrieslandCampina N.V.

Report on the financial statements 2017

Our opinion

In our opinion:
- Royal FrieslandCampina N.V.'s consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017 and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- Royal FrieslandCampina N.V.'s company financial statements give a true and fair view of the financial position of the Company as at 31 December 2017 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements 2017 of Royal FrieslandCampina N.V., Amersfoort ('FrieslandCampina' or 'the Company'). The financial statements include the consolidated financial statements of Royal FrieslandCampina N.V. and its subsidiaries (together: 'the group') and the company financial statements.

The consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
- the following statements for 2017: the consolidated income statement and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows; and
- the notes, comprising a summary of significant accounting policies and other explanatory information.

The company financial statements comprise:
- the company balance sheet as at 31 December 2017;
- the company income statement for the year then ended; and
- the notes, comprising a summary of the accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the company financial statements.

The basis for our opinion

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

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

Independence

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

Our audit approach

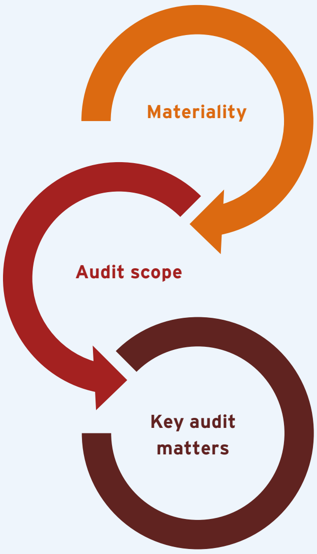
Overview and context

Royal FrieslandCampina N.V. is a dairy company and is through Zuivelcoöperatie FrieslandCampina U.A. owned by the member farmers. The member farmers are responsible for the milk deliveries and are represented in the Supervisory Board of FrieslandCampina. These members are important stakeholders of FrieslandCampina and therefore also influenced the materiality setting as included in the paragraph 'Materiality' in this auditor's report. The organisational structure is further explained in the Corporate Governance chapter of the annual report. This structure also has its influence on the annual report and our audit approach, for example regarding to purchases of milk and cooperative activities (further explained in the About FrieslandCampina chapter of the annual report).

The financial year 2017 was characterised by certain important events: the situation regarding the joint venture (JV) Friesland Huishan Dairy as result of financial difficulties of the joint venture partner China Huishan Dairy Holdings Company Limited; the sale of the fruit juices and fruit drinks activities ('Riedel'); and the restructurings which have been have been announced or have started in some countries. This affected our audit approach, group audit procedures and key audit matters.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Executive Board made important judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In the notes to the financial statements the areas of judgement in applying accounting policies and the main sources of estimation uncertainty are described. Given the significant estimation uncertainty and the related higher inherent risks of material misstatement in goodwill and tax positions, we considered these to be key audit matters as set out in the paragraph 'Key audit matters' of this report.

As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.
We ensured that the audit teams both at group and at component levels included the appropriate skills and competences which are needed for the audit of an international operating dairy company. We therefore included specialists with expertise in IT systems, valuation of assets, (international) taxes and the long term employment benefits in our team.
The outline of our audit approach was as follows:



Materiality

- Overall materiality: € 45 million

Audit scope

- We performed audit procedures on 20 components in 16 countries;
- Site visits were conducted to 6 foreign locations spread over 4 countries;
- Audit coverage: 85% of consolidated revenue, 87% of consolidated total assets and 84% of consolidated profit before tax.

Key audit matters

- Organisational changes;
- Valuation of goodwill and other non-current assets;
- Tax positions.

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the paragraph 'Our responsibilities for the audit of the financial statements'.
Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements, both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€ 45 million (2016: € 45 million).
Basis for determining materiality	1% of the compensation to the members for milk supplies. The materiality benchmark is consistent with prior year. Based on our professional judgment and the common information need of the users the materiality is maximized at € 45 million.
Rationale for benchmark applied	We have applied this benchmark, based on our analysis of the information needs of users of the financial statements and the member dairy farmers. On this basis we believe that the compensation to the members for milk supply based is an important benchmark for the financial performance of the company.
Component materiality	To each component in our audit scope, we allocated materiality, based on our judgement, that is less than our overall group materiality. The range of materiality allocated to the components is based on the contribution per component to the consolidated revenue and consolidated results before taxes. The majority of the components included in the scope of the group audit are audited with the statutory materiality level based on the mandatory statutory audit, which is lower than the overall materiality applied for the group as a whole.

We also take misstatements and/or possible misstatements into account that, in our judgement, are material for qualitative reasons.

We agreed with the Supervisory Board and the audit committee that we would report to them misstatements identified during our audit above € 1 million (2016: € 1 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

The scope of our group audit

Royal FrieslandCampina N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Royal FrieslandCampina N.V.

The activities of the group are divided into five business groups: Consumer Products Europe, Middle East & Africa (CP EMEA), Consumer Products Asia, Consumer Products China, Cheese, Butter & Milkpowder (CB&M) and Ingredients. The group audit has been performed along the lines of these five business groups.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

FrieslandCampina has a worldwide implemented Internal Control Framework. During our procedures we relied on the Internal Control Framework of the group where possible. As part of the coordination of the different foreign component teams, we requested them to specifically pay attention to the Internal Control Framework and to share their observations with us.

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The group audit

In determining the scope of our group audit we have taken into account the following elements of the internal control environment of the group:

- Internal Control Framework: during our audit we utilised where possible the globally implemented Internal Control Framework of the group.
- Central IT systems: FrieslandCampina implements one global ERP-system in most of the countries. The majority of the IT systems of the group are operated centrally. Our IT specialists have tested the central ERP systems and IT procedures and we have shared the outcome of our work with the local audit teams.
- Shared Service Centres: FrieslandCampina has three Financial Shared Service Centres. In the Dutch Financial Shared Service Centre the majority of the administration for the Dutch subsidiaries is performed and therefore audited by the group audit team.
- In determining our audit approach we have considered the outcome of the work performed and reports of the Corporate Internal Control and the Corporate Internal Audit department. Where considered relevant, we have included their findings in our approach.

In determining the scope of the group audit we have taken into account the relative share of the individual components and the risk profile of these components. Based on our analysis we have performed audits of the financial information of 19 components and for one component specific procedures in relation to the profit and loss account and balance sheet.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Revenue	85%
Total assets	87%
Profit before tax	84%

None of the components that are not part of our group audit scoping represent more than 2% of the consolidated revenue or consolidated balance sheet total.

For the remaining components we performed, among other procedures, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in their audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The group engagement team visits the component teams on a rotational basis. In the current year the group audit team visited the location in Pakistan given the acquisition of this subsidiary in 2016 and Germany given the restructuring. We also visited the locations in China and the United Arab Emirates.

The group consolidation, financial statement disclosures and a number of complex items are audited by the group engagement team. These are the restructuring provisions, the valuation of goodwill and other non-current assets, and significant tax positions. The Dutch activities of CB&M, CP EMEA and Ingredients are also audited by the group engagement team.

By performing the procedures above at components, combined with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this paragraph, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

In comparison to the prior year auditors report the key audit matter relating to the acquisition of Engro Foods has not been included. This matter is no longer applicable considering the acquisition is completed.

Key audit matter	How our audit addressed the matter
Organisational changes	
During 2017 a number of initiatives have been initiated as part of the simplification of the organisational structure (the Fast Forward program). As part of this program a number of disposals and restructurings are underway or announced. The most significant relates to the closure of the Gütersloh production location. In 2017 the sale of the fruit juices and fruit drinks activities was completed. These initiatives are disclosed in the Report of the Executive Board. We paid special attention to the accounting for these organisational changes given the nature and magnitude. We identified this as a key audit matter given the complexity and judgement involved by management with respect to the provisions and valuation of the assets. The key assumptions are disclosed in notes 4, 7 and 19 of the financial statements.	In relation to the restructuring programs our procedures consisted of auditing the accuracy and completeness of the restructuring provision including the assessment of the restructuring plan, audit of the criteria for recognising and determining the provision and the reconciliation and audit of the underlying documentation and assumptions (e.g. employee history and restructuring) for the provision. With regards to the assets of production location Gütersloh we tested the residual value of the assets, by among others the report of an external appraiser. As a group team we visited the locations and discussed the programs. With regards to the divestment of Riedel we determined the date on which control has transferred and tested the transaction price based on the conditions in the sales agreement. We have assessed the calculation for the result on the Riedel transaction, including the divestment of goodwill based on the transaction price and the book values at the moment of sale. We determined that the required disclosures of the provision and transactions are sufficiently included in the financial statements 2017. Our audit procedures did not result in any significant findings.

Key audit matter	How our audit addressed the matter
Valuation of goodwill and other non-current assets	
The group reported € 1.126 million goodwill relating to acquisitions. The valuation of goodwill is tested on an annual basis at the level of business groups. The testing of goodwill occurs on a discounted cash flow model. The most important assumptions in the goodwill impairment test are the discount rate, the long term growth rate, the gross profit growth rate and the forecasted results. The assumptions are disclosed in note 8 of the financial statements. We paid special attention to the valuation of goodwill considering the goodwill test is complex and involves management estimates, which are inherent uncertain. The role that business group Cheese, Butter & Milkpowder has in milk processing is compensated between the other business groups. This compensation is subject to judgement of management. We have included the valuation of goodwill as a key audit matter in our audit, given the material impact of goodwill and considering a change in assumptions could have significant impact on the financial statements. The other non-current assets, financial assets and intangible assets other than goodwill are tested by management for triggering events that might result into an impairment test. We paid special attention to the valuation of the aforementioned assets given the dynamic of this international group. Management has for example identified the bankruptcy of the joint venture partner of FrieslandCampina, being China Huishan Dairy Holdings Company Limited, identified as a triggering event for which an impairment test should be performed. The key assumptions are included in notes 7, 8 and 11 of the financial statements.	As part of our audit procedures related to goodwill we have tested the valuation methodology, the assumption applied in the goodwill impairment model and we have tested the underlying calculations. Together with the valuation of specialists we have tested the discount rate and long term growth rate with available market information (such as market interest and inflation) and our own independent assessment. In addition the gross margin growth rate and result development was reconciled to the budget and management forecasts. We have verified whether the required disclosures relating to the valuation of goodwill and the underlying key assumptions are correctly included in the 2017 financial statements. Also, we have considered the allocation of the compensation between the business group Cheese, Butter & Milkpowder and the other business groups for the role of the business group Cheese, Butter & Milkpowder has in the processing of milk (as disclosed in note 8 of the financial statements). For the other non-current assets, financial assets and intangible assets other than goodwill we assessed management's triggering event analysis based on the underlying budgets, plans and management reports and determined the consistency with the key assumptions applied in the goodwill impairment model. Based on our procedures no significant findings were identified in relation to the valuation of goodwill and disclosure thereof in the financial statements. *Restructuring Friesland Huishan Dairy* The complexities which occurred as result of the financial situation of the joint venture partner China Huishan Dairy Holdings Company Limited impacted the valuation of the related assets. Therefore we carried out the following procedures: • Test the valuation of the interest that FrieslandCampina has in China Huishan Dairy Holdings Company Limited based on the last known share price and more recent information; • Audit the impairment test that was performed by management on the non-current assets of the Joint Venture. In specific the discount rate and long term growth rate were tested based on market information (for example market interest and inflation) and our own independent assessment. In addition the gross margin growth rate and result development was reconciled to the budget and management forecasts. • Test the valuation of the deferred tax positions of the Joint Venture based on management forecasts Based on our audit procedures we did not identify significant findings in relation to the impairment of the investment, impairment of assets and valuation of deferred tax positions.

Key audit matter	How our audit addressed the matter
Tax positions	
The tax positions of the group are a key audit matter in our audit, considering these are material to the financial statements and the significance of management assumptions to the valuation of tax positions. The group has subsidiaries in several countries and is therefore also subjected to local tax legislation in those countries. As a result, the valuation of the (deferred) tax positions and determining the internal transfer pricing is considered complex. Especially the tax positions and acceptable internal transfer prices in Asia are subject to estimates. In the paragraph FrieslandCampina and taxes of the annual report FrieslandCampina's approach towards tax positions is described. Details relating to the tax positions and tax risks are included in note 23 of the financial statements.	We have tested the Dutch and international current and deferred tax positions and internal transfer prices together with our (international) tax specialists. We have assessed management's estimates based on tax legislation and the expected forecasts in the countries. Together with our international tax specialists we have tested the tax positions and internal transfer prices, based on among others internal transfer price documentation and our own independent assessment Next to this we have verified whether the required disclosures for the tax positions and tax risks are adequately included in note 23 in the financial statements. Based on the work performed and the audit evidence obtained no significant matters were noted on the tax positions and related disclosures in the 2017 financial statements.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- Foreword from the CEO;
- Key figures;
- About FrieslandCampina
- Report of the Executive Board;
- Governance; and
- Overviews.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Executive Board is responsible for the preparation of the other information, including the directors' report and the other information in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Our appointment

On 30 April 2015 we were, based on nomination of the Supervisory Board, appointed as auditors of Royal FrieslandCampina N.V. by the general meeting of shareholders. This appointment is reconfirmed on an annual basis by the general meeting of shareholders. We have been auditors of the company for a total period of uninterrupted engagement appointment of 2 years.

Responsibilities for the financial statements and the audit

Responsibilities of Executive Board and the Supervisory Board for the financial statements

Executive Board is responsible for:

- the preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code; and for
- such internal control as Executive Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Executive Board is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Executive Board should prepare the financial statements using the going-concern basis of accounting unless the Executive Board either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Executive Board should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.
A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, 16 February 2018
PricewaterhouseCoopers Accountants N.V.

Original Dutch version signed by J.E.M. Brinkman RA

Appendix to our auditor's report on the financial statements 2017 of Royal FrieslandCampina N.V.

In addition to what is included in our auditor’s report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor’s responsibilities for the audit of the financial statements
We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Executive Board.
- Concluding on the appropriateness of Executive Board’s use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company’s consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and/or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

Overviews

Financial history

In millions of euros, unless stated otherwise

	2017	2016	2015	2014	2013
Key figures					
Income statement					
Revenue	**12,110**	11,001	11,210	11,348	11,281
Operating profit before one-time items				412	513
Operating profit	**444**	563	576	489	313
Profit for the year	**227**	362	343	303	157
Guaranteed price	**37.96**	28.38	30.68	39.38	39.45
Performance premium in euros per 100 kg	**1.03**	2.19	2.25	1.86	1.81
Issue of member bonds in euros per 100 kg	**0.30**	1.25	1.28	1.07	1.23
Meadow milk premium per 100 kg of milk	**0.60**	0.29	0.29	0.29	0.31
Special supplements in euros per 100 kg	**0.12**	0.15	0.14	0.10	0.10
Milk price in euros per 100 kg	**40.01**	32.26	34.64	42.70	42.90
Financial position					
Balance sheet total	**9,046**	9,318	8,421	7,676	7,112
Equity attributable to the shareholder	**1,287**	1,309	1,108	991	920
Equity attributable to the shareholder and other providers of capital	**3,178**	3,169	2,832	2,587	2,405
Net debt	**1,400**	1,225	1,108	981	696
Cash flows					
Net cash flows from operating activities	**418**	850	1,019	554	588
Net cash flows used in investing activities	**-414**	-955	-705	-627	-576
Depreciation of plant and equipment and amortisation of intangible assets	**368**	307	275	231	213
Additional information					
Equity as a % of total assets	**35.1**	34.0	33.6	33.7	33.8
Employees (average number of FTEs)	**23,675**	21,927	22,049	22,168	21,186
Total milk processed (in millions of kg)	**11,433**	11,231	11,066	10,716	10,659
Milk supplied by members (in millions of kg)	**10,716**	10,774	10,060	9,453	9,261

Milk price overview

In euros per 100 kilos of milk at 3.47% protein, 4.41% fat and 4.51% lactose in the ratio 10:5:1 excluding VAT

	2017	2016
Fat price	13.66	10.22
Protein price	21.50	16.07
Lactose price	2.80	2.09
Guaranteed price	**37.96**	28.38
Performance premium	1.03	2.19
Meadow milk premium [1]	0.60	0.29
Special supplements [2]	0.12	0.15
Cash price	**39.71**	31.01
Issue of member bonds	0.30	1.25
Milk price	**40.01**	32.26
Additional benefits [3]	0.04	0.22
Interest member bonds	0.42	0.41
Retained earnings	1.33	2.12
Performance price	**41.80**	35.01

[1] Dairy farmers applying pasturing receive a 1.50 euro meadow milk premium per 100 kilos of milk for 2017. Of this, an amount of 1.00 euros per 100 kilos of meadow milk is paid from the operating profit. Averaged over all FrieslandCampina member milk, this amounts to 0.60 euros per 100 kilos of milk. Furthermore, another 0.50 euros per 100 kilos of meadow milk is paid out pursuant to cooperative schemes. To finance this amount, 0.35 euros per 100 kilos of milk is withheld from all milk. This also pays for the partial meadow milk premium.

[2] Special supplements concerns the total amount paid out per 100 kilos of Landliebe milk (1.00 euro) and the difference between the organic milk guaranteed price (49.10 euro) and the guaranteed price (37.96) per 100 kilos of milk. Averaged over all FrieslandCampina member milk this amounts to 0.12 euro per 100 kilos of milk.

[3] In 2017, 4.8 million euros were paid out (0.04 euro per 100 kilos of milk) in the context of the temporary 10-cent measure. In 2016, 23.8 million euros were paid out (0.22 euros per 100 kilos of milk) in the context of the temporary 2-cent and 10-cent measures.

Supervisory Board

Frans (F.A.M.) Keurentjes (1957)

Position	Chairman of the Supervisory Board of Royal FrieslandCampina N.V. Chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016, member since 31 December 2008
Nationality	Dutch
Profession	Dairy farmer
Other positions	Member of the Agricultural Tenancies Authority North Board member of NCR (National Cooperative Council)

Erwin (W.M.) Wunnekink (1970)

Position	Vice-chairman of the Supervisory Board of Royal FrieslandCampina N.V. Vice-chairman of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016, member since 16 December 2009
Nationality	Dutch
Profession	Dairy farmer
Other positions	Member of the Supervisory Board of ForFarmers N.V.

Sandra (J.W.) Addink-Berendsen (1973)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	16 December 2014
Nationality	Dutch
Profession	Dairy farmer
Other positions	Member of the Supervisory Board of ForFarmers N.V. Member of the Supervisory Board of Alfa Top-Holding B.V.

Wout (W.) Dekker (1956)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	1 July 2017
Nationality	Dutch
Other positions	Chairman of the Supervisory Board of Randstad Holding N.V. Chairman of the Supervisory Board of Princess Máxima Center for Pediatric Oncology Member of the Supervisory Board of SHV Holdings N.V.

Bert (B.E.G.) ten Doeschot (1971)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	15 December 2015
Nationality	Dutch
Profession	Dairy farmer
Other positions	Member of the Supervisory Board of Rabobank Centraal Twente Member of the Agricultural Tenancies Authority East

Tex (L.W.) Gunning (1950)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	14 December 2011
Nationality	Dutch
Other positions	CEO LeasePlan Corporation N.V.

Hans (H.T.J.) Hettinga (1959)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016
Nationality	Dutch
Profession	Dairy farmer
Other positions	CDA Board member Súdwest-Fryslân Municipal Council

René (D.R.) Hooft Graafland (1955)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	1 May 2015
Nationality	Dutch
Other positions	Member of the Supervisory Board of Royal Ahold Delhaize N.V. Member of the Supervisory Board of Wolters Kluwer N.V. Chairman of the Supervisory Board of Royal Theatre Carré Chairman of the Board of the African Parks Foundation Chairman of the Board of Nationaal Fonds 4 en 5 mei Foundation

Cor (C.C.H.) Hoogeveen (1962)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	19 December 2017
Nationality	Dutch
Profession	Melkveehouder
Other positions	None

Angelique (A.A.M.) Huijben-Pijnenburg (1968)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	15 December 2010
Nationality	Dutch
Profession	Dairy farmer
Other positions	None

Gjalt (G.) Mulder (1970)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	20 December 2016
Nationality	Dutch
Profession	Dairy farmer
Other positions	Member of the AB Fryslân and Noord-Holland Members' Council

Hans (H.) Stöcker (1964)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V. Member of the Board of Zuivelcoöperatie FrieslandCampina U.A.
Appointment	14 December 2011
Nationality	German
Profession	Dairy farmer
Other positions	Chairman Landesvereinigung Milch NRW Chairman of the Supervisory Board of Milchverwertungsgesellschaft NRW Member of the Kreisstelle Oberberg der Landwirtschaftskammer Nordrhein-Westfalen Member of the Landschaftsbeirat Oberbergischer Kreis Member of the Aufsichtsrat Raiffeisen Erzeugergenossenschaft Bergisch Land und Mark eG Chairman of the 'Milch und Kultur Rheinland und Westfalen' association

Ben (B.) van der Veer (1951)

Position	Member of the Supervisory Board of Royal FrieslandCampina N.V.
Appointment	1 October 2009
Nationality	Dutch
Other positions	Non-executive Director of RELX PLC and N.V. Member of the Supervisory Board of Aegon N.V.

Audit Committee
Ben van der Veer, Chairman
René Hooft Graafland
Sandra Addink-Berendsen
Angelique Huijben-Pijnenburg

Remuneration & Appointment Committee
Wout Dekker, Chairman
Frans Keurentjes
Erwin Wunnekink

Executive Board

Hein (H.M.A.) Schumacher (1971)

Position	Chief Executive Officer
Appointment	1 January 2018
Nationality	Dutch
Responsible for	Business group Presidents, President FrieslandCampina China Cooperative Affairs Corporate Communication Corporate Human Resources Corporate Internal Audit Corporate Legal Department & Company Secretariat Corporate Public Affairs Corporate Strategy & Fast Forward transformation programme Corporate Supply Chain Corporate Sustainability Global Research & Development
Other positions	Member of the Board of the Dutch Dairy Association (NZO) Member of the Supervisory Board of the TIAS School for Business & Society

Jaska (J.M.) de Bakker (1970)

Position	Chief Financial Officer
Appointment	1 January 2018
Nationality	Dutch
Responsible for	Corporate Finance & Reporting Corporate ICT and Digital Corporate Mergers & Acquisitions Corporate Real Estate Corporate Tax Corporate Treasury Global Finance Processes & Shared Services, Enterprise Risk Management and Corporate Internal Control Summit
Other positions	None

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

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